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ABSTRACT

This study develops a generalized procedure for the internal financial auditing of university libraries. It identifies critical internal control points in library operations, and develops questions to measure and evaluate fiscal operations effectiveness. Auditing data and advice were gathered from a survey of 87 members of the Association of Research Libraries (ARL), consultation with auditing organizations, visits to university libraries and the ARL, and review of auditing criteria by an advisory group of auditors, library business managers, and librarians. The study describes the standard auditing cycle to be followed in all university library audits: (1) understanding the accounting and internal control systems; (2) recording this; (3) preliminary evaluation of internal control; (4) confirming the operation of controls; (5) definitive evaluation of internal control; (6) completing the audit; (7) reviewing the internal library financial statements; and (8) issuing the report. Auditing programs for original record examination and testing would be developed after the system of internal control is evaluated, and a questionnaire for evaluation of internal accounting control of the library completed. Special considerations in auditing computerized systems, the questionnaire, and a glossary are included. (KP)

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RECOMMENDED PROCEDURES FOR THE INTERNAL FINANCIAL AUDITING OF UNIVERSITY LIBRARIES

BY

WILLIAM H. KURTH and DAVID S. ZUBATSKY

FINANCED UNDER

COUNCIL ON LIBRARY RESOURCES GRANT 638

WASHINGTON UNIVERSITY LIBRARIES, ST. LOUIS, MISSOURI 63130

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In memory of William H. Kurth (1917-1977), whose untimely death occurred before the completion of this study, and without whose dedication, initiative and organizational ability, this work would not have been possible. I shall personally be ever grateful for having known this concerned and knowledgeable librarian... D.S.Z.

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CHAPTER ONE

BACKGROUND AND PURPOSE OF STUDY

Origin. The origin of the effort to develop audit criteria for university libraries emerged from the need for developing some sort of systematic framework for auditing Washington University Libraries. This need was the result of several internal audits (the most recent in 1973) which touched on certain areas of relevance (and on others which appeared irrelevant), but not on others which appeared to be of equal or even greater concern to the Library administration. As a consequence, in attempting to focus on what fiscal factors in the Library system made sense (not only to the Library administration, but to the University's auditor as well) to subject to audit review, it became gradually clearer that what we were trying to develop was a priority list of items on which auditing should focus. Indeed, as this list was being compiled, it became obvious to us that what was emerging from our exercise might have applicability to other libraries as well.

Further thought concerning the applicability to other libraries (at this point we were thinking of "other libraries", refined later to "university libraries"), gave impetus to outlining the following basic issues:

(1) The magnitude of library expenditures makes well-conceived fiscal controls necessary.

(2) The probability - from our own experience at Washington University and gleaned from other sources - that audits of university libraries do not provide assurance that all of the critical fiscal control points are dealt with in the audit. Thus, the full range of critical fiscal areas needs somehow to be stated in a systematic fashion.

(3) There appeared to be no evidence of a body of guidelines in existence for the auditing of a university library.

Stemming from the thinking expressed above, it was thought most desirable that we develop a system not only for our needs but also one for possible applicability to other university libraries. In order to underwrite the costs of such a study, we applied for a grant to the Council on Library Resources. The Council funded our proposal in March 1976. A copy of the proposal is included in Appendix 1.

Why Do This At All? The question may be put, why raise the issue of auditing at all? From this could be implied certain refuge or flexibility in an environment free of "constraint by controls." Another related question might be why should such an effort be initiated from a university library?

The responses to those, as well as related questions can perhaps be fairly short. Refuge in an area where there are no controls, and the "flexibility" engendered by it, are illusory and may, at any time, come to dramatic and disastrous conclusion. The risks inherent in this sort of refuge are far outweighed by having rational auditing standards. The present effort, it should be emphasized, is not the only recommended system for university libraries. There is no warrant for that. It is, however, one possible mode for action, and at worst a point of departure for a future, more concerted university library effort in this direction.

The present effort also is not, nor can it be, a statement of what the library alone considers ought to be the "critical control points"; this does require the collaboration from the auditing profession, which for this project has been fully sought and obtained.

The material developed through this project will be of importance to a university library administration even if there is no audit; for it identifies the control points which ought to be under close examination. In addition, if there is no rational system in effect, to which the library director can point to or use, the university library administration may be less able to cope with external pressures from other bodies, which might impose different, inappropriate requirements to achieve better controls.

The significance of this material to the auditor lies in the fact that it will assist him in discerning more clearly than hitherto the totality of the library system he is to audit.

Boundaries and Limits of This Study: The Nature and Extent of "Auditable Concerns" in the University Library Environment. The auditing criteria set forth in this manual are intended for university libraries. We also believe that those university libraries that will benefit the most from our study will be those nearly 700 libraries in doctoral-granting institutions and other graduate degree universities and colleges - categories established by the Carnegie Commission on Higher Education in its publication A Classification of Higher Education (Berkeley, 1973).

In the development of internal auditing* criteria for the above groups of university libraries, we have attempted, through the medium of an internal control questionnaire and related documentation (see Chapter Four), to address university library concerns, issues and factors which are auditable, that is, those which ought to be subject to periodic auditing examination. The distinction between "university" and "library" is not always an easy job since the policies and procedures of the parent university are present in many of the day-to-day activities of the

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* By internal audit, we mean the methodology or set of procedures through which the soundness and practicability of procedures and controls can be identified and tested, and from which remedial steps can be readily prescribed, and the necessary safeguards placed in to effect.

university library. In the auditing of a university library, the auditor will be frequently examining functions with unique library characteristics; in other instances he will encounter, in the library, exclusively university policies and procedures with their "built-in" university controls. An example would be the payroll system, where the auditor is concerned actually with the larger parent, the university itself, and the adequacy or inadequacy of the university's system is to be subjected to scrutiny rather than the library's. In auditing the payroll activities then, the auditor normally will be determining the extent of adherence to the university's policies and procedures governing the payroll and salary administration.

We have sought, therefore, to minimize the auditing aspect as it relates to those primarily university factors, and we have striven to concern ourselves with the uniquely library auditable factors. We based our reasoning on the grounds that normal auditing for such items as wage and salary procedures, travel policy and procedures are common denominator auditing factors which have been examined or should be appropriately examined from the central vista of the university itself, rather than the library. We have, however, not failed to incorporate some questions in our internal control questionnaire on these questions as well, since we want to present an auditing picture of the library as a whole. The question here is one of emphasis, however, and the number of questions on such items as the salary and wage and the travel areas are relatively brief.

In summary, the purpose of this study to develop a generalized procedure for the internal financial auditing of university libraries is nothing less than the improvement of the university library's fiscal controls. This was achieved by (1) identifying the sensitive or critical internal control points in the university library operations and (2) propounding the right questions at these points, which will help in the measurement and evaluation of the effectiveness of the university library's fiscal operations, and which will stimulate reflection and action leading toward the development of improved controls. The effort toward the identification of all such sensitive points, for both the auditor and the university library administration, is most important, since the definitive control points, essential for a proper and effective audit, have in all probability not been known by auditors or by the library administration.

CHAPTER TWO

METHODOLOGY

In order to secure information on exactly the sort of directions auditing took at university libraries, a survey was made in September, 1976, of a large number of members of the Association of Research Libraries. The purpose was to solicit data from actual audits of these libraries conducted in past years in order to be able to use this data as examples of ways to organize "hard data" into types of questions, areas to be covered, styles, etc. A tabulation of the results follows:

Number of libraries sent inquiry:	87
Number of libraries responding:	63
Number never having an audit:	33
Number having had an audit:	22
(1) Fairly comprehensive:	9
(2) Covered some basic points:	4
(3) Sporadic issues only treated:	9
Number going through audit now:	3
Number having an audit but not in recent past:	5

Twelve libraries included data which could be used in our project. In all cases, the respondents expressed great interest in receiving the results of our work.

In addition to the above data, professional auditing literature and advice was obtained from the Association of College and University Auditors (ACUA), the American Institute of Certified Public Accountants and Washington University's Internal Auditing Department. Further input was gathered through visits to Case Western Reserve University, University of Missouri - St. Louis, Duke University, the Association of Research Libraries (ARL) Office of Management Studies, and the Joint University Libraries. Since the preparation of a set of auditing guidelines will complement other management control systems being developed by the ARL's Office of Management Studies for application to its Management and Research Program (MRAP), there was close liaison with this office from the outset.

The next step was to establish an advisory group of professional auditors, library business managers, and librarians to review our various draft documents in order to refine the auditing criteria and to help

assure their general applicability as standards. This group included the following consultants: Mr. Rodney B. Moore, Internal Auditor, New Mexico State University; Mr. Charles Johnston, Assistant Director for Administrative Services, Joint University Libraries; Mr. David Dowell, Assistant University Librarian, Duke University Libraries; Mr. Robert Miller, Director of Libraries, University of Missouri - St. Louis; Mr. James Jones, Director of Libraries, Case Western Reserve University Libraries; Mr. Richard Denman, Business Manager, University of Utah Libraries; Mr. Charles Schlegel, Internal Auditor, Washington University; and Mr. Duane Webster, Director of the Office of Management Studies of the Association of Research Libraries.

CHAPTER THREE

RELATIONSHIP BETWEEN AUDITOR AND UNIVERSITY LIBRARY ADMINISTRATION

A proper relationship between the auditor and the university library administration is essential from the beginning, indeed, even prior to the actual audit. Rodney B. Moore, Director of Internal Auditing at New Mexico State University and a professional consultant for our study, puts it cogently:

> "The first thing I do is inform the Director or Department Head, either by phone call or a short memorandum, that I am planning a routine audit of this operation. While tone, attitude, and approach are always important, erring at this point can all but ring down the curtain on a potentially effective audit. This initial contact will seek to establish a time that is convenient for the initial meeting with the Director in his office to initiate a preliminary interview."

Even before the preliminary meeting the auditor usually reviews prior audit reports and working papers (if there are any).

The preliminary survey is also of fundamental importance. Its purpose is nicely stated in Lawrence B. Sawyer's book, The Practice of Modern Internal Auditing (Orlanda, Florida: Institute of Internal Auditors, 1973), as familiarization. "But familiarization for the auditor," Sawyer continues, "is different from familiarization for the casual observer. The auditor must not only view the scene and read the words - he must hear the music too. He must do more than observe the flow of work. He must perceive the time objectives... he must pinpoint the key controls... he must understand the management style... he must test the quality of the employees. Only then will he be able to determine significant control points, develop a thoughtful audit program, deploy his audit efforts economically, and form a firm foundation for the examination that follows." (p.124)

The continuance of this standard auditing cycle is described below under the following eight categories: (1) understanding the accounting and internal control systems of a university library, (2) recording the understanding, (3) preliminary evaluation of internal control, (4) confirming the operation of controls, (5) definitive evaluation of internal control, (6) completing the audit, (7) reviewing the internal financial statements, and (8) issuing the report.

I. Understanding the Accounting and the Internal Control Systems of a University Library*

A. Interviews:

1. Will be with management and supervisory personnel and can be the most effective part of an examination.

2. Will be designed to elicit information contributing to the levels of understanding of the 1) accounting systems, 2) internal controls, 3) fiscal management policies and practices, 4) environment, 5) accounting principles, and 6) legal restraints if applicable.

3. During interviews, the auditor may be referred to different kinds of records and documents; he will collect copies of those documents that he believes will be necessary or helpful, both for a basic understanding of the activity's affairs and for later reference during the audit. Examples are:

a. Previous auditor's working papers.

b. Procedures manuals.

c. Organization charts, job descriptions and other descriptions of the library and individual library department's activities.

d. Fiscal policy statements and written planning summaries for the library and individual library department's activities.

e. Memoranda explaining important or unusual transactions and their acccunting treatment.

f. Copies of internal management accounting reports, such as annual reports, budgets, financial statements, and cost reports.

g. Library forms.

B. Tours: A tour of offices and the operations contributes significantly to an auditor's initial understanding of the library and individual library department's activities.

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* This section is based upon chapters on auditing procedures in several editions of Montgomery's Auditing, the latest being the Ninth Edition (1975), edited by Defliese, Johnson, and Macleod, and published by the Ronald Press Company of New York.

II. Recording the Understanding:

A. While an auditor is gaining an understanding of the accounting system and the internal control systems, he may be exposed to a significant quantity of data and material; accordingly, it is essential that he make a rough record of his understanding as he goes along, to be filled in and confirmed later.

B. Record of understanding usually consists of two parts:

1. Broad summary of the auditor's overall understanding of the activity, organization, management plans and policies, etc., supplemented by relevant documents collected in the review phase. The summary may be either narrative or graphic (overviews).

2. Detailed summary of accounting procedures and controls - must be detailed because it is the basis for a preliminary evaluation of internal control and the planning of audit tests. Detailed summaries may be either narrative descriptions or flow charts. Flow charts are preferred because the process of preparing a flow chart provides a format and discipline that assists the preparer in thinking through his understanding. The schematic form of a flow chart highlights both gaps in the auditor's understanding and discontinuities or weaknesses in the flow of data or control over it.

C. Transaction review: The completeness and accuracy of the recorded understanding should be checked by the first series of the audit tests: the transaction reviews (i.e., tracing each significant type of transaction from its inception to conclusion). The auditor will trace a transaction of each type through the entire system, comparing the processing and control steps to those recorded in the flow chart or narrative in order to make sure that he has identified all significant processes and has noted and evaluated each phase of the transaction flow.

III. Preliminary Evaluation of Internal Control:

Internal control may be classified into two categories: "Operational controls" which are concerned with the efficient use of resources, and as such are not directly relevant to the financial transactions recorded in the accounts; and "internal accounting controls" which are concerned with all other controls, some of which in practice will have operational aspects. Internal accounting controls may be divided into two types: (1) basic controls, which are necessary for the completeness and accuracy of the accounting records, and (2) disciplines over basic controls, which are designed

to ensure the continual and proper operation of basic controls and to safeguard assets. These disciplines consist of the following: (1) adequate arrangements for custody of assets and accounting records to achieve separation of responsibility for custody of assets and the related record keeping and physical arrangements that present unauthorized access to assets or accounting records; (2) adequate segregation of duties so that the work of one person serves as a check upon that of another, and (3) adequate supervision of the work of the persons involved in the operation of the system of basic controls.

A. Identification of Controls: The purpose is to identify which controls afford reasonable assurance that the affected accounts are accurate and reliable. Those are the controls which should be tested. A corollary purpose is to identify controls that do not need to be tested. The preliminary evaluation also consists of identifying apparent control weaknesses - absence of expected or desirable control operations. Apparent weaknesses should be discussed at once with responsible library personnel because: (1) Auditor's preliminary understanding may be in error or incomplete; or, (2) there may be compensating controls elsewhere in the system.

B. Internal control questionnaire: A comprehensive Internal Control Questionnaire (ICQ) reminds the auditor of possible features and identifies and highlights those missing from the system under review.

C. In addition, the preliminary evaluation of control provides a basis for drafting the audit program. An audit program is a list, generally ir detail, of steps to be performed in the course of an examination. It also guards against possible omissions and duplications, and provides part of the evidence of work done:

IV. Confirming the Operation of Controls:

Consist of functional tests:

Principal purpose is testing the compliance of a system with prescribed control procedures. This is done to establish that the controls identified do exist and are properly functioning by reviewing transactions. The testing must be carefully reviewed to determine if the documentation is accurately described. This testing provides the evidence on which the auditor can base conclusions about the apparent effectiveness of controls.

V. Definitive Evaluation of Internal Control:

Functional tests will either confirm or alter an auditor's understanding of the accounting systems and controls. Either way, he has definitive firsthand knowledge with which to plan the balance

of the audit, revise the audit program if necessary, and possibly make constructive suggestions to appropriate library management personnel. (If his understanding, as confirmed by functional tests, reveals weaknesses in accounting controls, he should take up his observation with appropriate library management personnel.)

VI. Completing the Audit:

An auditor's judgement of the extent and timing of account validation and other substantive tests needed to complete an audit is based on the understanding of internal control gained and confirmed in the previous phases of the auditing cycle.

A. Substantive tests refer to all audit procedures other than transaction reviews and functional tests.

B. Validation means to establish the truth, accuracy, or relevance of a fact or figure. In describing the auditing cycle, validation is not only checking that assets and liabilities exist and are carried in the accounts at the proper amounts, and that transactions are properly authorized and recorded in the correct amounts, but it also includes identifying and evaluating the accounting principles used.

VII. Reviewing the Internal Library Financial Statements:

In concept, the review of internal library financial statements or the general ledger follows validation procedures in an audit cycle because validation procedures are supposed to assure an auditor that all problems affecting the financial statements have been brought to light.

VIII. Issuing the Report:

An auditor does not sign a report on audited financial statements until he is satisfied that all procedures specified in the audit program have been completed as planned and that all possible questions have been brought to his attention, answered properly, and recorded in the audit's working papers.

CHAPTER FOUR

QUESTIONNAIRE FOR EVALUATION OF INTERNAL ACCOUNTING CONTROL OF A UNIVERSITY LIBRARY

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I. INTRODUCTION

The "Questionnaire for Evaluation of Internal Accounting Control of a University Library" which follows is organized in terms of expected fiscal control operations under traditional library functions (e.g., acquisitions, administrative, audio/visual, circulation/reserve, and interlibrary loan); and it is designed to throw light on, and to identify, the internal accounting control points comprising the university library's operations. It is also designed to be used by an auditor, or by the university library director and his staff. Since control objectives and the means of achieving them are limited in number and much the same from one system to another, most auditors find that both efficiency and effectiveness are greatly enhanced by identifying and listing expected controls and then using the list in the form of an internal control questionnaire (ICQ) on all or most assignments. The general procedure for applying the questionnaire suggests several options for university libraries including: preparing for a full-scale audit; a simple internal review involving library staff; a problem identifying activity (i.e., to determine whether the library needs to attend to this area); or a project to improve management documentation and practice in this area.

However, it is not our purpose to set forth as an auditing criterion that there has to be a certain procedure, but rather to suggest the desirability of giving thought to the idea. The issue of local convenience and practice in given university libraries will prescribe and result in a specific procedure. The thrust of the questions in the auditing questionnaire are then to provoke thought on the subject.

Since many of the internal accounting control questions are necessarily repeated within the various library functions sections, the best utilization of the questionnaire, therefore, would be to distribute those pertinent sections to the responsible departments and other unit supervisors. Even so, some of the topics within these sections may not be applicable to all libraries, and therefore, in these cases, they would be skipped.

Because of the costs and strategies involved, very few libraries are audited by their university officials on a regular basis. In fact, our survey found that for many libraries, university audits are few and far between. We recommend, therefore, that in such cases the library administrative staff confirm the operation of the internal accounting controls, as outlined in our questionnaire through the procedure of functional tests. Samples of such tests are given in Chapter 5. The principle purpose in testing is to determine the compliance of a system with the recommended control procedures. This is done to establish that the controls identified do exist and are properly functioning by reviewing transactions. This testing provides then the evidence on which library management can base conclusions about the apparent effectiveness of controls. The library's business manager, or its equivalent position, should be responsible for supervising the testing. An alternative method would be to establish a library auditing committee.

In summary, library management, with the cooperation of the university's central accounting and internal auditing staffs, has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding of assets, and for devising a system of internal control that will, among other things, help assure the production of proper financial statements, "(Statements on Auditing Procedure No. 33, Auditing Standards and Procedures, American Institute of Certified Public Accountants, Committee on Auditing Procedure, New York, 1963, p.31). It is also the responsibility of library management to determine that prescribed procedures are being carried out, that changes in operating conditions are recognized, and that corrective action is taken when the system breaks down.

As noted above, the Questionnaire is organized in terms of expected internal fiscal control operations. It is divided into three parts: (1) A Checklist of Basic Principles of Financial Internal Control for University Libraries; (2) Internal Accounting Control - questions that will bring responses indicating the existence or absence of accounting procedures or statistical, physical or other controls designed to bring about the accurate and suitable recording and summarization of authorized financial transactions related to the subject matter of the section; and, (3) Internal Check - questions that will bring responses indicating the existence or absence of accounting procedures or statistical, physical, or other controls designed to safeguard library assets against defalcations or other similar irregularities or against avoidable loss from other causes through the process of segregation of duties. However, if the questionnaire is to be distributed to library staff first, it should be stressed that the library's management personnel should be prudent when determining the distribution of the internal check sections.

The questionnaire can be amended by the addition of "Not Applicable", "Yes/No" and/or "Person/Responsibility" columns to record the response of library staff to the particular question (see Sample I below). A negative response could disclose a possibility of weakness in internal control or check. However, the absence of any one control (indicated by a "No" answer) is often compensated for by alternative control(s) and no real weakness exists. To aid in the proper evaluation of "No" answers, many auditors will include at the end of each section of questions a separate sheet headed "Compensating Controls" (see Sample II below), as part of the explanation for each "No" answer, a statement to the effect that either no weakness exists because of alternative control(s), which should be specifically identified, or that compensating control(s) are absent. In the absence of compensating control(s), the explanation would normally include any reasons advanced by the library's personnel for not using the procedures suggested by the questions.

SAMPLE I

	Not Applicable	Yes: Library Employee	Yes: Auditor	No: Library Employee	No: Auditor	Flow Chart Reference
B. Purchase Orders Internal Accounting Control						
1. Are purchase orders, including any firm commitments, listed in detail showing vendors' names, quantities, and prices?						
2. Are such orders under numerical control?						
3. Are budget balances adequate before issuing encumbrances (if applicable)? Does a responsible supervisor approve individual orders costing over a certain amount?						18
4. Is the listing or are the retained copies of purchase orders compared in detail with: receiving or completion reports and vendors' invoices or other documents originating credits to vendors?						
5. Are copies of purchase orders or requisitions distributed to the proper library or university departments prior to receipt of materials and invoices?						
6. Are open purchase orders or commitments reviewed periodically (at least annually) for: delivery period, terms of commitments related to current needs and prices, and ascertaining if the actual orders outstanding are indeed valid?						21

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SAMPLE II

Compensating Controls:

If any "No" answers are compensated by alternative controls, identify such controls below.

Auditor's Recommendations in the Absence of Compensating Controls:

Response of Director/Department Head/Other Unit Supervisor:

Action Taken:

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II. BASIC PRINCIPLES OF FINANCIAL INTERNAL CONTROL FOR UNIVERSITY LIBRARIES

A. General Control Objectives*

Due to the fact that effective financial internal control is based upon the concept of charge and discharge of responsibility and duty, the basic principles of financial internal control are as follows:

1. Accounting and financial operations must be separated, and no one person should be in complete charge of a business transaction. One employee should not have access simultaneously to an accounting record and to the material or data underlying that record. To illustrate: One employee should not have authority to disburse cash and to record those disbursements.

2. Responsibility for the performance of each duty must be fixed in each person.

3. The correctness of the underlying operation and the subsequent accounting should be verified. To illustrate: The total of daily cash receipts should be compared with and verified against the totals of cash register tapes, or sequentially numbered invoices.

4. If possible, employees should be rotated on a job, and vacations for those in positions of trust should be enforced. In this way the opportunities for fraud are reduced.

5. All library employees should be bonded - in order to protect the employer and to deter a tempted employee.

6. Instructions should be reduced to writing in the form of operations and procedural manuals.

7. The controlling account principle should be used in all possible instances. The use of controlling accounts serves as verification between account balances and the employees' methodology. (A controlling account is a financial account that summarizes detailed subsidiary accounts or records. Also called a control account.)

8. Mechanical or electronic equipment, with built-in proof features, should be used if possible.

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* Section A is based upon: Arthur W. Holmes and Wayne S. Overmyer: Basic Auditing Principles, 4th Edition. Homewood, Illinois, Richard D. Irwin, Inc., 1972. pp. 44-45.

B. Purchases

1. Purchases should be initiated only on the basis of appropriate authorizations and records of commitments should be maintained as a basis for:

   (a) Determining that transactions are executed in accordance with authorization.

   (b) Establishing the amount of any provision required for losses arising from unfilled commitments.

2. Control should be established over goods and services received as a basis for:

   (a) Determining and recording the liability for goods and services received but not entered as accounts payable.

   (b) Where required, posting the items to detailed inventory records.

3. Control should be established over goods returned to and claims on suppliers as a basis for:

   (a) Obtaining credit for all such items.

   (b) Where required, posting the items to detailed inventory records.

4. Invoices and related documentation should be properly checked and approved as being valid before being entered as accounts payable in any ledgers.

5. All valid accounts payable transactions, and only those transactions, should be accurately recorded as accounts payable.

C. Payrolls

1. Payments in respect to wages and salaries should be:

   (a) Made only to library employees at authorized rates of pay.

   (b) Where required, in accordance with records of work performed.

   (c) Accurately calculated.

2. It should be ascertained that there has been a uniform application of university policies regarding time worked and not worked (vacations, sick leave, holidays, etc.), job classifications and salary ranges, changes in rates of pay, and application of employee benefits.

D. Cash Receipts

Control should be established over all cash and checks received as a basis for:

1. Ascertaining that all cash due to the university library is actually received.

2. Ascertaining that all cash is being deposited promptly or otherwise safely guarded.

3. Ascertaining that the proper entries have been made on the pertinent accounting records.

4. Ascertaining that cash receiving activities are centralized in as few hands as possible.

E. Cash Disbursements

Control should be established over all cash disbursements as a basis for:

1. Ascertaining that cash disbursements are justified, are properly supported by evidence and that value has been received.

2. Ascertaining that disbursements are made only upon proper authority.

3. Ascertaining that the proper entries are made on the pertinent accounting records.

4. Ascertaining that all petty cash vouchers are prepared by employees that are responsible and signed by the person receiving the cash and they were supported by an invoice or other document and the amounts spelled out.

F. Cash Count and Reconciliation (e.g., fines and fees, service charges, petty cash, special funds for coin change machines, etc.)

Internal cash counts are performed to:

1. Ensure the accountability of money held.

2. Verify the correctness of daily transactions.

3. Identify cash handling problems.

G. Library Services Performed for a Fee

Control should be established over services performed as a basis for:

1. Making charges to patrons for all such services.

2. Determining the amount of the related revenues which have not been entered as accounts receivable.

H. Supplies and Equipment Inventories

Control should be established over supplies and equipment in order to determine that:

1. Accurate detailed records, including price histories, are maintained of supply and equipment inventories.

2. A periodic physical and condition inventory of library furnishings and equipment is taken.

3. All expenditures are authorized by responsible officials.

4. All equipment is marked with property number and/or department code immediately upon receipt by the institution.

I. Travel and Entertainment Expenses

Control should be established over travel and entertainment expenses in order to:

1. Ascertain that all travel and entertainment expenses incurred are in accordance with university and library policies.

2. Insure that expenses are reasonable and were incurred for the benefit of the university library.

3. Insure that proper approvals are received.

4. Ascertain that controls are adequate and to recommend correct action where applicable.

III. GENERAL

Internal Accounting Control

A. Is a chart of accounts in use? (A formal chart of accounts is a list of accounts, systematically arranged, indicating names and numbers.)

Is the chart of accounts supplemented by definitions of items to be recorded in the various accounts?

B. Is an accounting manual in use? (Such a manual should prescribe procedures to be followed in recording and summarizing accounting transactions.)

Is the manual readily available to all personnel? Is the manual adequate, accurate, and up-to-date?

C. Is the assignment of accounting duties and responsibilities expressed in the form of an organization chart?

D. Are all postings to general and subsidiary ledgers required to be documented?

E. Are ledger entries clearly referenced to indicate their source?

F. Are journal entries:

1. Standardized for content and identification?

2. Supported by readily identifiable data?

3. Reviewed and approved by a responsible employee?

G. Are the original recording and summarization of accounting transactions reviewed to assure adherence to:

1. Chart of accounts?

2. Accounting manual instructions?

3. Assignments indicated by the organization chart?

H. Are periodic reports to library and/or university management compared with:

1. Reports of prior periods?

2. Budgets?

I. Is a specified employee or group of employees assigned the duty of accounting for and reporting on significant fluctuations disclosed by the comparisons referred to in H.?

J. Is a specified employee or group of employees assigned the duty of reviewing and revising:

1. Chart of accounts and related definitions?

2. Accounting manual?

3. Organization chart?

K. Are accounting records stored in a safe place?

L. Are permanent records properly labeled and safely stored?

General: Internal Check

A. Are persons who control the recording and summarization of accounting transactions independent of those who:

1. Perform the operations of:

(a) Purchasing?

(b) Receiving materials?

(c) Receiving cash?

(d) Disbursing cash?

2. Are custodians of assets, such as:

(a) Cash?

(b) Petty cash?

(c) Inventories?

(Control of the recording and summarization of accounting transactions includes the recording of transactions in books of original entry, the summarization of recorded transactions, the posting of transactions or summarizations to the general ledger and the preparation of periodic accounting reports.)

B. Is the person who reviews and approves journal entries independent of:

1. Posting and balancing detail records?

2. Initiation of entries in books of original entry?

C. Do persons independent of those who record and summarize accounting transactions periodically:

1. Examine original data supporting recorded transactions? On a random basis? On a sampling basis?

2. Review recording and summarization of accounting transactions for adherence to prescribed policies?

3. Review the preparation of periodic reports to library and/or university management?

4. Review reports on significant fluctuations disclosed by the comparisons referred to in H. above?

D. Are the examinations and reviews referred to in C.4. above:

1. Scheduled to cover all types of accounting transactions at regular intervals?

2. Reported on in writing to persons independent of the subject of the examination?

E. Is the person who approves revisions of the chart of accounts and related definitions, the accounting manual, and the organization chart independent of:

1. Those who maintain the accounting records?

2. Those who report on adherence to prescribed policies?

F. Is access to accounting records limited at all times to persons whose duties require such access?

IV. ADMINISTRATIVE FUNCTIONS (If any Section is not applicable to your library's situation, please skip to the next appropriate Section.)

A. Purchases of Equipment and Supplies (Including Accounts Payable)

1. General

Does internal accounting control of purchases begin with or include:

(a) Pre-numbered purchase orders or requisitions approved by a responsible official?

(b) Receiving reports?

(c) Vendors' invoices that are:

(1) Recorded at time of receipt of the invoice?

(2) Recorded at time of vouchering or payment?

(d) Debit memos?

2. Purchase Orders
Internal Accounting Control

(a) Are purchase orders, including any firm commitments, listed in detail showing vendors' names, quantities, and prices?

(b) Are such orders under numerical control?

(c) Are budget balances adequate before issuing encumbrances (if applicable)?

(d) Is the listing or are the retained copies of purchase orders compared in detail with: receiving or completion reports and vendors' invoices or other documents originating credits to vendors?

(e) Are copies of purchase orders or requisitions distributed to the proper library or university departments prior to receipt of materials and invoices?

(f) Are open purchase orders or commitments reviewed periodically (at least annually) for: delivery period, terms of commitments related to current needs and prices, and ascertaining if the actual orders outstanding are indeed valid?

(g) Is there a procedure for claiming from vendors those open purchase orders?

(h) Are purchase orders and changes therein subject to approval, before commitments are made, by a responsible official?

(i) Are all verbal instructions to vendors supported by written confirmations?

(j) Are state purchasing regulations complied with in regard to bidding (if applicable)?

(k) Are quotations or bids obtained from two or more suppliers on purchases of large quantities or dollar value? Are bids submitted in writing? Other arrangements?

(l) Is the person(s) responsible for purchasing equipment and supplies periodically looking for acceptable sources of supply, considering quality, reasonable prices, and ability to deliver quantities needed? Who makes the final decision on the selection of vendors?

(m) Does the person(s) responsible for purchasing equipment and supplies seek fair and reasonable discounts on purchases?

(n) Are cancelled orders properly accounted for?

Purchase Orders: Internal Check

1. Is the detailed listing of purchase orders, including any firm commitments, prepared by persons independent of:

   (a) Receiving functions?

   (b) Processing of invoices?

   (c) Cash disbursement functions?

2. Do persons independent of those who prepare purchase orders:

   (a) Assign purchase order numbers?

   (b) Account for the sequence of numbers?

3. Are purchase order personnel independent of:

   (a) Processing of invoices?

   (b) Cash disbursement functions?

   (c) Receiving functions?

4. Are individual purchases or purchase orders approved for propriety of prices, terms, quantities, and vendors by supervisory persons other than persons who:

   (a) Make the purchases?

   (b) Prepare purchase orders?

5. Are budget distributions established by a qualified employee?

6. Are possible conflicts of interest in connection with those staff responsible for library purchasing periodically reviewed? (Examples: 1) Choice of vendors; 2) Prices paid; 3) Terms of sale)

3. Receiving Reports
   Internal Accounting Control

   (a) Are pre-numbered receiving reports listed in detail showing vendors' names and quantities?

   (b) Are such reports under numerical control?

   (c) Is the listing compared in detail with:

      (1) Purchase orders?

      (2) Materials received?

      (3) Vendors' invoices or other documents originating credits to vendors?

   (d) Are unmatched receiving reports reviewed periodically?

   (e) Are damaged shipments accounted for?

   (f) Is corrective action taken by the responsible library department or the university's purchasing department when suppliers do not comply with the terms of the purchase order?

   (g) Are returned purchases controlled in a manner which assures proper credit?

   (h) Are instructions given to the library mail room as to how to wrap and package returns? What forms to be included?

Receiving Reports: Internal Check

1. Is the detailed listing of receiving reports prepared by persons independent of:

   (a) Purchasing functions?

   (b) Processing of invoices?

   (c) Cash disbursement functions?

2. Do persons independent of persons who prepare receiving reports:

   (a) Assign receiving report numbers?

   (b) Account for the sequence of numbers?

3. Is the list of receiving reports, or the retained copies of receiving reports, compared with purchase orders and vendors' invoices or other documents originating credits to vendors by persons independent of:

   (a) Purchasing functions?

   (b) Receiving functions?

4. Are receiving personnel independent of:

   (a) Processing of invoices?

   (b) Cash disbursement functions?

   (c) Purchasing functions?

4. Vendors' Invoices
Internal Accounting Control

   (a) Are all copies of invoices received, except the original, stamped to indicate clearly that they are duplicates, thereby decreasing the likelihood of duplicate payment of an invoice?

   (b) On receipt of vendors' invoices, is a detailed manual or automated listing made showing:

      1. Vendors' name?

      2. Amount of invoice?

      3. Disposition of invoice?

(c) Are such invoices under numerical control? Other type of control?

(d) Are payments made from duplicate invoices or statements?

(e) Are unprocessed invoices reviewed periodically?

(f) Are discounts for rapid payment utilized within a certain period of time?

Vendors' Invoices: Internal Check

1. Is the detailed listing of vendors' invoices prepared by persons independent of:

   (a) Receiving functions?

   (b) Purchasing functions?

2. Do persons independent of those who list vendors' invoices account for the sequence of numbers assigned to invoices?

5. Processing Invoices
   Internal Accounting Control

   (a) Is the information on the invoice compared with:

      (1) Purchase order?

      (2) Receiving report or other evidence of receipt?

   (b) Are invoices checked mathematically for:

      (1) Extensions?

      (2) Discounts?

      (3) Footings? (The art of adding up a column of figures; the sum total of such a column.)

      (4) Foreign currency exchange rates (if applicable)? (The following sources could be used: 1) Wall Street Journal, 2) the weekly Federal Reserve Statistical Release: Foreign Exchange Rates, 3) the daily exchange rates available from the international division of a local bank.)

   (c) Is a designated employee assigned the responsibility for investigating and correcting differences disclosed by the comparison and checking indicated in 1. and 2.?

(d) Is there a procedure whereby all invoices are paid within the discount period?

(e) Are invoices usually processed and paid within: __ 30 days, __ 60 days, __ 90 days, __ over 90 days?

(f) Is there a stamp available indicating the various responsibilities in connection with processing of every invoice? Is the applicable person required to sign or initial the invoice indicating which of the following procedures are followed by the individual:

(1) Comparison with purchase orders?

(2) Comparison with receiving reports?

(3) Verification of extensions, discounts and footings?

(4) Investigation and correction of differences?

(g) Does a responsible person indicate on the invoice or other documents his/her:

(1) Approval of the accounting (budgetary) distribution of invoices?

(2) Approval of the invoices for payment? Is there an amount limit after which a higher level supervisor must approve these invoices?

(h) Are credit memoranda for returned equipment and supplies:

(1) Under numerical control?

(2) Issued promptly on receipt of proper authorization from vendors?

(3) Recorded promptly when issued?

(4) Approved by a responsible person?

(i) Are processed invoices listed in detail showing names and amounts?

(j) Are processed invoices under numerical control?

(k) Is the total of unpaid items in the invoice register reconciled periodically with general ledger accounts payable control?

(l) Does a responsible employee approve adjustments indicated by comparison of monthly statements with recorded liabilities or by correspondence from vendors?

(m) Are year-end cut-off procedures adequate to insure inclusion of all items purchased during previous fiscal year period?

(n) Are financial reports prompt and accurate enough to guide end of year reconciliations?

Processing Invoices: Internal Check

1. Are invoices compared with purchase orders or receiving reports by persons independent of:

   (a) Purchasing functions?

   (b) Receiving functions?

2. Are the investigation and correction of differences disclosed by the comparison indicated in 1. carried out by persons independent of:

   (a) Purchasing functions?

   (b) Receiving functions?

   (c) Processing of invoices?

3. Do persons with the independence indicated in 2. and independent of cash disbursements functions:

   (a) Approve accounting distribution of invoices?

   (b) Approve invoices for payment?

4. Do persons with the independence indicated in 2.:

   (a) Number debit memoranda?

   (b) Account for the sequence of debit memorandum numbers?

   (c) Approve debit memoranda for returned equipment and supplies and damage claims?

5. Is the detailed listing of processed invoices prepared by persons independent of:

   (a) Purchasing functions?

   (b) Receiving functions?

   (c) Cash disbursement functions?

   (d) Posting of general ledger accounts?

6. Are items in the unpaid invoice register or file compared with the general ledger by an employee independent of those who:

   (a) Record cash disbursements?

   (b) Process invoices?

7. Does a person independent of the processing and entering of invoices:

   (a) Reconcile vendors' statements with reported liabilities?

   (b) Approve adjustments of recorded liabilities?

6. Equipment and Supplies - Inventory Control
   Internal Accounting Control

   (a) Are detailed records, including price histories, maintained of supply and equipment inventories?

   (b) Is a periodic physical inventory of library furnishings, equipment, and supplies taken? Is condition of equipment also considered? Are all equipment and supplies under centralized control?

   (c) Are perpetual inventory records maintained?

   (d) Is all equipment marked with a property number and/or department code immediately upon receipt by the library?

   (e) Are all inventories safeguarded against theft, breakage, and spoilage?

   (f) Are the storerooms or storage areas properly safeguarded or controlled so as to prevent access to materials by unauthorized personnel?

   (g) Is a record kept and checked periodically on keys to storerooms, storage areas, etc.?

(h) If some of the library's equipment can be borrowed by library staff or library patrons, are there established check-out procedures?

Are such borrowings authorized by responsible persons?

(i) Do procedures exist for disposition of surplus equipment?

Are these dispositions authorized by proper officials? (See V, H for examples)

(j) Are cost comparisons between equipment maintenance contracts for equipment and per call service charges done by a responsible person on a regular basis?

(k) For those pieces of equipment that can either be leased or purchased, are cost and depreciation schedules considered?

(l) Do procedures exist to determine the value to the library and the university of bulk purchase agreements?

Equipment and Supplies - Inventory Control: Internal Check

1. Are inventories tested periodically by library or university officials?

   Are such inventory counts verified by persons independent of those in charge of the inventory records?

2. Is equipment adequately covered by insurance?

3. Are there proper budgeted amounts established for equipment and supplies?

   Are purchases from university stores, departments, and outside vendors made on requisition only? Do library departments order from the equipment and supply area by requisitions only?

4. Are capital expenditures authorized by responsible officials?

5. Are bulk purchase agreements checked on by persons independent of those in charge of supplies and equipment?

B. Travel and Entertainment Expenses
Internal Accounting Control

1. Does the university have written policies defining allowable expenditures and their dollar limitations?

2. Does the library have a separate written travel policy from that of the university? If yes, why?

3. Are expense reports typed or completed in ink and properly supported and signed by the party incurring the expense?

4. Are expenses reviewed and approved by a library administrator, someone other than the party incurring the expense? Is authorization to travel without reimbursement needed?

5. Do all entertainment and unusual expenses bear adequate written explanations and are they supported by disbursement receipts?

6. Does the university's accounting department review all expense reports to determine that they are in accordance with the policy as defined by the university travel and entertainment objectives?

Travel and Entertainment Expenses: Internal Check

1. Has the university written policies establishing certain standards, regulations and allowances for travel and entertainment expenses?

2. Do requests for travel advances require appropriate approval by a responsible library administrator(s)? Are dollar limits established? Are there established limits of how many travel advances can be applied for? Are there procedures to determine if travel advances were received?

3. Are guidelines established to control expense advances?

4. Are expense reports prepared for each trip or entertainment expenditure?

5. Are these reports required to be signed by the person incurring the expense and is it required that they be fully supported by detailed receipts, such as transportation stubs and hotel bills, whenever possible?

6. Are these expenditures reviewed and approved by a responsible library administrator other than the party incurring the expense?

7. Is the submission of the expense report to the university's accounting office required within a prescribed period of time after the traveler's return?

8. Are library controls in effect to detect delinquent travelers who are requesting additional advances?

9. Does the university accounting department review all library expense reports to see that expenses are reasonable and that they meet the requirements and regulations set forth above?

10. Does the university's accounting office promptly follow-up with the library on unreasonable items and/or items disallowed by university policy?

C. Payrolls
Internal Accounting Control

1. Are written authorizations and pre-numbered forms required for all:

   (a) Employees added to the payroll?

   (b) Changes in rates of pay?

   (c) Employees taken off the payroll?

   (d) Payroll deductions?

   (e) Overtime hours worked? Is advance approval needed?

   (f) Leave without pay?

   (g) Night premium?

2. Are hours on time records checked against other reports of the employee's time charges?

3. Are clerical operations in the preparation of payroll checked, including:

   (a) Extensions and footings of time cards or other time records?

   (b) Rates of pay used?

   (c) Calculations of gross earnings, including overtime?

   (d) Calculations of deductions from gross earnings?

(e) Accounting distribution of payroll items?

(f) Application of university policies regarding time not worked, e.g., vacations, sick leave, holidays, etc.?

4. Are there special safeguards for termination notifications, payments to part-time employees, and unclaimed checks?

5. Are minimum wage laws and fair labor standards adhered to?

6. Are completed Federal, state, and local tax forms required before allowing a person to be on the payroll?

7. Are there special safeguards for the distribution of payroll checks within the various units of the library system?

8. Are identification documents required when all employees pick up checks? Only for students?

9. Are payroll registers or lists reviewed on a regular basis in order to avoid overpayments, underpayments, etc.?

10. Are employee terminations reported promptly to the university's personnel and/or payroll office and, if possible, in advance of the employee's last day of work?

Payrolls: Internal Check

1. Are individual employment payroll records maintained by persons independent of those who:

(a) Authorize payroll changes?

(b) Prepare payrolls?

(c) Distribute payroll payments?

(d) Review payroll distribution registers or lists?

2. Do persons with the independence indicated above periodically compare payrolls with employment records for:

(a) Names?

(b) Rates?

(c) Authorizations for deductions?

3. Do persons with the independence indicated in 1. periodically compare the hours worked with payroll hours?

4. Are the payroll checks delivered to and distributed by someone other than the payroll clerks?

5. At times, are payroll checks distributed on a surprise basis within library departments by someone outside of the particular department and who is independent of payroll functions?

D. Cash Receipts

1. Are there receipts from coin-operated photocopying machines?

   Are these receipts reconciled with recorded usage of machines? Daily? Monthly? Other?

   Are discrepancies reconciled?

   Are records of copies made with by-pass keys kept?

2. Are there receipts from vending machines?

   Are these receipts reconciled with usage and inventory of machines?

3. Is there income from interlibrary loan photocopying?

4. Is there income from data base search services?

5. Is there income from the sale of library publications? From the sale of Friends of the Libraries publications?

6. Are each day's receipts recorded promptly when received?

7. Are cash receipts at all library locations reported daily to the main library collection point?

8. Do the forms on which cash receipts are summarized provide for the inclusion of all known sources of cash receipts?

9. Are all library cash receipts deposited on a daily basis with the main cashier's office on campus?

   If not, are they placed in a library safe or other suitable secure storage area until transferred?

10. Are internal cash counts performed:

    (a) To ensure the accountability of money held?

    (b) To verify the correctness of daily transactions?

    (c) To identify cash handling problems?

11. Is there controlled access to areas where receipts are stored awaiting transfer? Are keys or locks under control and distributed on a limited basis? Are locks and combinations changed when employees terminate?

Cash Receipts: Internal Check

1. Are each day's receipts deposited intact and promptly by all library locations?

2. Are each day's total library receipts deposited intact and promptly with the university's main cashier's office?

3. Are totals of cash receipts compared with cash books and deposit slip totals and with credits to accounts receivable control and other control accounts by persons independent of:

   (a) Cash receipts functions?

   (b) Accounts receivable functions?

   (c) Posting credits for cash received to the general ledger?

   (d) Cash counts and reconciliations?

E. Disbursements
Internal Accounting Control

1. Are there any disbursements made by check? (For example, prepayment for purchase of library materials?)

   Is documentation required?

2. Are any disbursements made in currency? (For example, prepayment for purchase of library materials? Petty cash expenditures?)

   (a) Is there a cost limit on such disbursements?

   (b) Is documentation required?

3. Does a responsible employee authorize such disbursements?

4. Are checks written by library personnel? If so, are there responsible employees who:

   (a) Prepare checks?

(b) Record checks?

(c) Balance bank statements? Approved by whom?

(d) Are checks signed, manually or in facsimile, only on the basis of approved vouchers, which may include vendors' invoices or formalized requests for checks?

(e) At the time of signing does the signer:

(1) Have written evidence that the payments are supported by approved vouchers?

(2) Have written evidence that the data on the checks have been compared with the vouchers?

(f) Are all checks pre-numbered?

(g) When pre-numbered, is a record made of the disposition of all checks?

(h) Are checks issued listed in detail? (For example, a record of checks should show in detail payees and amounts, to facilitate the posting of subsidiary records. Such a list may be in the form of entries in the cash book, a written tabulation, adding machine tape, copies of checks or requests for checks to be issued.)

(i) Is the total of the listing as described in (h) compared with cash book total and charges to accounts (vouchers) payable control or other control accounts?

(j) If mechanical check signers are used:

(1) Are keys and signature dies under control?

(2) Does the person whose signature is mechanically signed approve vouchers passed for payment?

(3) Are there mechanical counting devices on the check signers?

(4) Are the totals of the mechanical counting devices regularly checked against the number of checks written?

(5) Are persons operating the check signers denied access to blank checks?

Disbursements: Internal Check

1. Are persons who prepare checks independent of persons who:

   (a) Approve vouchers for payment?

   (b) Subsequently compare data on checks with approved vouchers or other supporting data?

2. Are persons who sign checks manually or in facsimile independent of persons who:

   (a) Prepare vouchers for approval?

   (b) Approve vouchers for payment?

   (c) Prepare checks?

3. When checks require two authorized signatures, must each signature:

   (a) Mean that the signer has ascertained that payments are supported by approved vouchers?

   (b) Be that of a responsible person independent of the other signer?

   (c) Signatures limited to any specific amount?

4. When a check signing machine is used:

   (a) Are keys and signature dies under control?

   (b) Does the individual authorized to use the signature plate have custody of the plate when it is not in use?

   (c) Are procedures followed in using the plate such that this individual knows that only authorized checks have been signed?

5. Are amounts on checks protected against alteration by means of:

   (a) Protective paper?

   (b) Check protector writing device?

   (c) Inscribing amounts?

6. Are all checks drawn to the order of specific payees?

7. Are signed checks retained in the custody of the signer until delivery or mailing, and delivered or mailed, by him/her or by a person directly under his control and independent of:

   (a) Voucher functions?

   (b) Payroll functions?

   (c) General ledger functions?

   (d) Cash receipts functions?

   (e) Petty cash or other cash fund functions?

   (f) Check preparation functions?

8. Do persons independent of those who sign checks:

   (a) Have custody of unnumbered checks and insert check numbers?

   (b) Record and account for sequence of check numbers?

5. Petty Cash

   (a) Are all disbursements of currency made from an imprest petty cash fund (i.e., a sum kept on hand, periodically replenished, and used for small expenditures)?

   (b) Are there separate petty cash funds maintained (e.g., for coin change machines (change banks), photocopying machines, interlibrary loan services, fines and fees, miscellaneous expenses, etc.)?

   (c) Is each petty cash fund in the custody of one person only? Or are funds dispersed throughout the library system? Are there unofficial petty cash funds? Are stamps and IOU's part of these funds?

   (d) Is there controlled access to areas where these petty cash funds are stored? Are keys or locks under control and distributed on a limited basis?

   (e) Are petty cash vouchers:

      (1) Pre-numbered?

      (2) Prepared for each disbursement?

      (3) Prepared for some disbursements?

(4) In ink or typewriten?

(5) Dated?

(6) Fully descriptive of the item paid for?

(7) Clearly marked to show the amount paid?

(8) Checked for proper budget distribution?

(9) Checked and approved prior to payment by someone other than the petty cash custodian?

(10) Receipted by the person receiving the cash?

(11) Satisfactorily voided at the time of payment to prevent further use of the same voucher and its supporting evidences?

(f) Are these funds replenished from a central library source? Or are they replenished directly from a central university business or cashier's office?

(g) Do the reimbursing checks show the petty cash custodian as the payee?

(h) Are the reimbursing checks endorsed by the petty cash custodian if checks are drawn to "cash"?

(i) Are the reimbursement checks reconciled with the sum of the individual expenditure vouchers?

(j) Are the petty cash funds occasionally checked by someone other than the petty cash custodian(s)?

F. Intra-University Departmental Charges for Library Services Internal Accounting Control

1. Are procedures followed in all library departments to ensure the reporting of all services involving charges?

2. Does the library's accounting department or administrative office receive daily or periodic charge memos or reports of services rendered or furnished? Or is the billing cycle __ 30 days, __ 60 days, __ 90 days, __ by semester?

3. Are such reports pre-numbered?

(a) If so, are the numbers accounted for?

(b) Are voided reports kept and filed?

4. Are charges for services checked for accuracy of:

   (a) Period covered?

   (b) Type of services?

   (c) Rates used?

   (d) Extensions?

   (e) Discounts?

   (f) Footings?

5. Are the following classes of transactions cleared and recorded:

   (a) Sales to staff?

   (b) Sales of library materials and equipment (if applicable)?

6. Are letters of authorization supplied to library departments by faculty and other university departments who have personnel who will be authorized to request and charge library services (e.g., bibliographic data base searches, interlibrary loans, photocopy work, and audio-visual services)? Are such personnel required to produce their I.D. cards when requesting these services. Are dollar limits required on such letters of authorization?

Intra-University Departmental Charges for Library Services: Internal Check

1. Are the charge memo reports of services prepared by persons independent of:

   (a) Billing functions?

   (b) Accounts receivable functions?

   (c) Cash receipt functions?

   (d) Credit section?

2. Is the checking of charges for services made by persons independent of:

   (a) Billing functions?

   (b) Accounts receivable functions?

   (c) Cash receipt functions?

   (d) Credit section?

G. Insurance

1. Is the library covered by an insurance policy? If yes, is it a separate policy exclusively for the library or part of the overall institution insurance plan?

2. If the university or library administration does not insure its books, etc., what are the reasons?

3. Are those books located in separate buildings (i.e., branch libraries or storage) insured at their location? Is there a separate policy or are these locations under a general library or institutional policy?

4. Does the policy cover buildings, furniture, liability, books and related materials, other contents (e.g., card catalogs, equipment, etc.)?

5. Does the library have a deductible clause? Co-Insurance clause?

6. Are the library's books and related library materials insured for:

   (a) Fire?

   (b) Theft found at inventory?

   (c) Theft found soon after the act is committed?

   (d) Water leaks?

   (e) Fire water damage?

   (f) Hurricane?

   (g) Tornado?

   (h) Earthquake?

   (i) Vandalism or malicious acts?

   (j) Other?

7. Does the library have a separate policy for:

   (a) Rare books?

   (b) Microfilm and microfiche?

   (c) Audio visual materials?

   (d) Art works?

   (e) Parcel post coverage (i.e., a blanket insurance policy to cover losses from parcel post shipments in lieu of an insurance fee paid to the postal service on individual parcels)?

   (f) Fraud?

   (g) Employee fidelity coverage (bond)?

   (h) Temporary exhibits or displays?

8. Does the insurance for the library's books cover their replacement value or the actual (depreciated) value of the original books as they exist on the shelf? Are library materials carried as assets on the university's books?

9. Does the library's policy have a provision which covers sets of books which appreciate in value rather than depreciate (an inflationary clause)? If books are insured on this basis, are premiums higher than under other coverage?

10. Has the library inventoried its collection for insurance purposes? If yes, was a professional appraiser utilized to determine the value? Was the professional appraiser employed by the library or by the insurance company?

11. Is the value of the library's collection updated to cover the costs of new acquisitions, cataloging and inflation? Is increased coverage to accommodate the increased value obtained on an annual basis? Other period of time?

12. Does the library and/or university have a specific agreement with its agent or insurance company as to how a value will be established for materials involving a claim?

V. ACQUISITIONS (If any Section is not applicable to your library's situation, please skip to the next appropriate Section.)

A. Purchases and Accounts Payable (General)

Does internal accounting control of purchases begin with or include:

1. Pre-numbered purchase orders or requisitions approved by a responsible official?

2. Receiving reports?

3. Vendors' invoices that are:

   (a) Recorded at time of receipt of the invoice?

   (b) Recorded at time of vouchering or payment?

4. Debit memos?

B. Purchase Orders
Internal Accounting Control

1. Are purchase orders, including any firm commitments, listed in detail showing vendors' names, quantities, and prices?

2. Are such orders under numerical control?

3. Are budget balances adequate before issuing encumbrances? Does a responsible supervisor approve individual orders over a certain amount of money?

4. Is the listing or are the retained copies of purchase orders compared in detail with: receiving or completion reports and vendors' invoices or other documents originating credits to vendors?

5. Are copies of purchase orders or requisitions distributed to the proper library or university departments prior to receipt of materials and invoices?

6. Are open purchase orders reviewed periodically (at least annually) for: delivery period, terms of commitments related to current needs and prices, and ascertaining if the actual orders outstanding are indeed valid?

7. Is there a procedure for claiming from vendors those open purchase orders?

8. Are purchase orders and changes therein subject to approval, before commitments are made, by a responsible official?

9. Are all verbal instructions to vendors supported by written confirmations?

10. Are state and/or university purchasing regulations complied with in regard to bidding (if applicable)?

11. Are quotations or bids obtained from two or more suppliers on purchases of large quantities or dollar value? Are bids submitted in writing? Other arrangements?

12. Do university and/or state regulations allow for sums of money to be deposited with commercial vendors or non-profit agencies (e.g., Library of Congress, New York Public Library, U. S. Superintendant of Documents, National Technical Information Service) for present or future deliveries of library materials? Are the establishment of such deposit accounts approved by a responsible library official and/or university official?

13. Are those library departments responsible for purchasing periodically looking for acceptable sources of supply, considering quality, reasonable prices, and ability to deliver quantities needed within a reasonable time? Who makes the final decision concerning selection of vendors?

14. Do those library departments responsible for purchasing seek fair and reasonable discounts on purchases?

15. Are cancelled orders properly accounted for?

16. Is there a policy of ordering personal books and other library materials for library staff and/or university faculty through the university library?

    (a) Are all staff members and/or faculty eligible?

    (b) Are such personal book orders ordered through the library's regular purchase order system?

    (c) Is there a special budget category for such personal orders?

    (d) Does this type of order need to be approved before ordering?

    (e) Are there any types of materials not ordered?

    (f) Are discounts given to staff and/or faculty?

    (g) Is there a service charge for such types of orders?

(h) Are such orders claimed?

(i) Can such orders be cancelled by the request of staff and/or faculty after being ordered?

(j) Is the receiving procedure the same for this type of order as that of regular library orders?

(k) Is the invoice processing procedure the same for this type of order as that of regular library orders?

17. Are university and/or state regulations complied with in regard to bidding (if applicable) or obtaining price quotations for library binding?

(a) Does a responsible library staff member approve the contract requirements and bidding instructions? Must this also be approved by a university official? Are there established procedures for selection of potential bidders? Is this done by the library staff? In consultation with university officials?

(b) Does a responsible library staff member compare bids with the contract requirements? Is this done with the consultation and approval of a university official?

(c) Does a responsible library staff member approve the winning bidder? Is this done with the consultation and approval of a university official?

(d) Is the library required to accept the lowest bidder?

(e) Are there procedures established for the monitoring of binding shipments by experienced library staff in order to determine if binder is living up to contract obligations concerning condition, quality, price, delivery time, etc.?

(f) Is a library binding section responsible for receiving and checking in binding shipments? Or is this done in the library's general receiving area?

(g) Is there adequate record keeping?

(h) Are the invoices approved by a responsible staff member? Are they processed like all other library invoices?

Purchase Orders: Internal Control

1. Is the detailed listing of purchase orders, including any firm commitments, prepared by persons independent of:

   (a) Receiving functions?

   (b) Processing of invoices?

   (c) Cash disbursement functions?

2. Do persons independent of those who prepare purchase orders:

   (a) Assign purchase order numbers?

   (b) Account for the sequence of numbers?

3. Are purchase order personnel independent of:

   (a) Processing of invoices?

   (b) Cash disbursement functions?

   (c) Receiving functions?

4. Are individual purchases or purchase orders approved for propriety of prices, terms, quantities, and vendors by supervisory persons other than persons who:

   (a) Make the purchases?

   (b) Prepare purchase orders?

5. Are budget distributions established by a qualified employee?

6. Are possible conflicts of interest in connection with those staff responsible for library purchasing periodically reviewed? (Examples: 1) Choice of vendors; 2) Prices paid; 3) Terms of sale)

C. Receiving Reports
Internal Accounting Control

1. Are pre-numbered receiving reports listed in detail showing vendors' names and quantities?

2. Are such reports under numerical control?

3. Is the listing compared in detail with:

   (a) Purchase orders?

   (b) Materials received?

   (c) Vendors' invoices or other documents originating credits to vendors?

4. Are unmatched receiving reports reviewed periodically?

5. Are the receiving reports and/or purchase orders used in the physical control of received library materials? Are property stamps used in the physical control of library materials soon after being properly checked in?

6. Are damaged shipments accounted for?

7. Is corrective action taken by the responsible library department or the university's purchasing department when suppliers do not comply with the terms of the purchase order?

8. Are returned purchases controlled in a manner which assures proper credit?

9. Does the receiving section(s) give instructions to the library mail room how to wrap and package returns? What forms to be included?

Receiving Reports: Internal Check

1. Is the detailed listing of receiving reports prepared by persons independent of:

   (a) Purchasing functions?

   (b) Processing of invoices?

   (c) Cash disbursement functions?

2. Do persons independent of persons who prepare receiving reports:

   (a) Assign receiving report numbers?

   (b) Account for the sequence of numbers?

3. Is the list of receiving reports, or the retained copies of receiving reports, compared with purchase orders and

vendors' invoices or other documents originating credits to vendors by persons independent of:

(a) Purchasing functions?

(b) Receiving functions?

4. Are receiving personnel independent of:

(a) Processing of invoices?

(b) Cash disbursement functions?

(c) Purchasing functions?

D. Vendors' Invoices
Internal Accounting Control

1. Are all copies of invoices received, except the original, stamped to indicate clearly that they are duplicates, thereby decreasing the likelihood of duplicate payments of an invoice?

2. On receipt of vendors' invoices is a detailed manual or automated listing made showing:

(a) Vendors' name?

(b) Amount of invoice?

(c) Disposition of invoice?

3. Are such invoices under numerical control?

4. Are payments made from duplicate invoices or statements?

5. Are unprocessed invoices reviewed periodically?

6. Are discounts for rapid payment utilized within a certain period of time?

Vendors' Invoices: Internal Check

1. Is the detailed listing of vendors' invoices prepared by persons independent of:

(a) Receiving functions?

(b) Purchasing functions?

2. Do persons independent of those who list vendors' invoices account for the sequence of numbers asigned to invoices?

E. Processing Invoices
Internal Accounting Control

1. Is the information on the invoice compared with:

   (a) Purchase order?

   (b) Receiving report or other evidence of receipt?

2. Are invoices checked mathematically for:

   (a) Extensions?

   (b) Discounts?

   (c) Footings? (The act of adding up a column of figures; the sum total of such a column.)

   (d) Foreign currency exchange rates (if applicable)? (The following sources could be used: 1) Wall Street Journal, 2) the weekly Federal Reserve Statistical Release: Foreign Exchange Rates, 3) the daily exchange rates available from the international division of a local bank.)

3. Is a designated employee assigned the responsibility for investigating and correcting differences disclosed by the comparison and checking indicated in 1. and 2.?

4. Is there a procedure whereby processed invoices are always paid within the discount period?

5. Are invoices usually processed and paid within: __ 30 days, __ 60 days, __ 90 days, __ over 90 days?

6. Is there a stamp available indicating the various responsibilities in connection with processing of every invoice?

   Is the applicable person required to sign or initial the invoice indicating which of the following procedures was performed by that individual?

   (a) Comparison with purchase orders?

   (b) Comparison with receiving reports?

   (c) Verification of extensions, discounts and footings?

   (d) Investigation and correction of differences?

7. Does a responsible person indicate on the invoice or other documents his/her:

   (a) Approval of the accounting (budgetary) distribution of invoices?

   (b) Approval of the invoices for payment? Is there an amount limit after which a higher level supervisor must approve these invoices?

8. Are credit memoranda for returned books, periodicals, etc.:

   (a) Under numerical control?

   (b) Issued promptly on receipt of proper authorization from vendors?

   (c) Recorded promptly when issued?

   (d) Approved by a responsible person?

9. Are processed invoices listed in detail showing names and amounts?

10. Are processed invoices under numerical control?

    Other type of control?

11. Is the total of unpaid items in the invoice register reconciled periodically with general ledger accounts payable control?

12. Does a responsible employee approve adjustments indicated by comparison of monthly statements with recorded liabilities or by correspondence from vendors?

13. Are year-end cut-off procedures adequate to insure inclusion of all items purchased during previous fiscal year period?

14. Are financial reports prompt and accurate enough to guide end of year reconciliations?

Processing Invoices: Internal Check

1. Are invoices compared with purchase orders or receiving reports by persons independent of:

   (a) Purchasing functions?

   (b) Receiving functions?

2. Is the investigation and correction of differences disclosed by the comparison indicated in 1. carried out by persons independent of:

   (a) Purchasing functions?

   (b) Receiving functions?

   (c) Processing of invoices?

3. Do persons with the independence indicated in 2. and independent of cash disbursements functions:

   (a) Approve accounting distribution of invoices?

   (b) Approve invoices for payment?

4. Do persons with the independence indicated in 2.:

   (a) Number debit memoranda?

   (b) Account for the sequence of debit memorandum numbers?

   (c) Approve debit memoranda for returned books, etc. and and damage claims?

5. Is the detailed listing of processed invoices prepared by persons independent of:

   (a) Purchasing functions?

   (b) Receiving functions?

   (c) Cash disbursement functions?

   (d) Posting of general ledger accounts?

6. Are items in the unpaid invoice register or file compared with the general ledger by an employee independent of those who:

   (a) Record cash disbursements?

   (b) Process invoices?

7. Does a person independent of the processing and entering of invoices:

   (a) Reconcile vendors' statements with reported liabilities?

   (b) Approve adjustments of recorded liabilities?

F. Disbursements
Internal Accounting Control

1. Are there any disbursements made by check? (For example, prepayment for purchase of library materials?)

   Is documentation required?

2. Are any disbursements made in currency? (For example, prepayment for purchase of library materials? Petty cash expenditures?)

   (a) Is there a cost limit on such disbursements?

   (b) Is documentation required?

3. Does a responsible employee authorize such disbursements?

4. Are checks written by library personnel? If so, are there responsible employees who:

   (a) Prepare checks?

   (b) Record checks?

   (c) Balance bank statements? Approved by whom?

   (d) Are checks signed, manually or in facsimile, only on the basis of approved vouchers, which may include vendors' invoices or formalized requests for checks?

   (e) At the time of signing does the signer:

      (1) Have written evidence that the payments are supported by approved vouchers?

      (2) Have written evidence that the data on the checks have been compared with the vouchers?

   (f) Are all checks pre-numbered?

   (g) When pre-numbered, is a record made of the disposition of all checks?

   (h) Are checks issued listed in detail? (For example, a record of checks should show in detail payees and amounts, to facilitate the posting of subsidiary records. Such a list may be in the form of entries in the cash book, a written tabulation, adding machine tabulation, adding machine tape, copies of checks of requests for checks to be issued.)

(i) Is the total of the listing as described in (h) compared with cash book total and charges to accounts (vouchers) payable control or other control accounts?

(j) If mechanical check signers are used:

(1) Are keys and signature dies under control?

(2) Does the person whose signature is mechanically signed approve vouchers passed for payment?

(3) Are there mechanical counting devices on the check signers?

(4) Are the totals of the mechanical counting devices regularly checked against the number of checks written?

(5) Are persons operating the check signers denied access to blank checks?

Disbursements: Internal Check

1. Are persons who prepare checks independent of persons who:

   (a) Approve vouchers for payment?

   (b) Subsequently compare data on checks with approved vouchers or other supporting data?

2. Are persons who sign checks manually or in facsimile independent of persons who:

   (a) Prepare vouchers for approval?

   (b) Approve vouchers for payment?

   (c) Prepare checks?

3. When checks require two authorized signatures, must each signature:

   (a) Mean that the signer has ascertained that payments are supported by approved vouchers?

   (b) Be that of a responsible person independent of the other signer?

   (c) Signatures limited to any specific amount?

4. When a check signing machine is used:

   (a) Are keys and signature dies under control?

   (b) Does the individual authorized to use the signature plate have custody of the plate when it is not in use?

   (c) Are procedures followed in using the plate such that this individual knows that only authorized checks have been signed?

5. Are amounts on checks protected against alteration by means of:

   (a) Protective paper?

   (b) Check protector writing device?

   (c) Inscribing amounts?

6. Are all checks drawn to the order of specific payees?

7. Are signed checks retained in the custody of the signer until delivery or mailing and delivered (or mailed) by him/her or by a person directly under his control and independent of:

   (a) Voucher functions?

   (b) Payroll functions?

   (c) General ledger functions?

   (d) Cash receipts functions?

   (e) Petty cash or other cash fund functions?

   (f) Check preparation functions?

8. Do persons independent of those who sign checks:

   (a) Have custody of unnumbered checks and insert check numbers?

   (b) Record and account for sequence of check numbers?

5. Petty Cash

(a) Are all disbursements of currency made from an imprest petty cash fund (i.e., a sum kept on hand periodically replenished and used for small expenditures)?

(b) Is each petty cash fund in the custody of one person only? Is there an unofficial petty cash fund? Are stamps and IOU's part of this fund?

(c) Is there controlled access to the area where the petty cash fund is stored? Are keys or locks under control and distributed on a limited basis?

(d) Are petty cash vouchers:

(1) Pre-numbered?

(2) Prepared for each disbursement?

(3) Prepared for some disbursements?

(4) In ink or typewritten?

(5) Dated?

(6) Fully descriptive of the item paid for?

(7) Clearly marked to show the amount paid?

(8) Checked for proper budget distribution?

(9) Checked and approved prior to payment by someone other than the petty cash custodian?

(10) Receipted by the person receiving the cash?

(11) Satisfactorily voided at the time of payment to prevent further use of the same voucher and its supporting evidences?

(e) Is the fund replenished from a central library source? Or is it replenished directly from a central university business or cashier's office?

(f) Do the reimbursing checks show the petty cash custodian as the payee?

(g) Are the reimbursing checks endorsed by the petty cash custodian if checks are drawn to "Cash"?

(h) Are the reimbursement checks reconciled with the sum of the individual expenditure vouchers?

(i) Are the petty cash funds occasionally checked by someone other than the petty cash custodian(s)?

G. Cash Receipts

1. Cash Receipts Received by Mail
Internal Accounting Control

(a) Is a detailed listing made showing names and amounts?

(b) Is the total of the listing in the cash book compared with:

(1) Deposit slip total?

(2) Credits for accounts receivable control or other control accounts?

(c) When a list other than that in the cash book is prepared, is the total of such list compared with the cash book total?

2. Cash Receipts Received in Person
Internal Accounting Control

(a) Is a detailed listing made showing names and amounts?

(b) Is the total of the listing in the cash book compared with:

(1) Deposit slip total?

(2) Credits for accounts receivable control or other control accounts?

(c) When a list other than that in the cash book is prepared, is the total of such list compared with the cash book total?

(d) Are there procedures established for the acceptance or non-acceptance of personal checks?

3. All Receipts
Internal Accounting Control

(a) Are each day's receipts recorded promptly when received?

(b) Are internal cash counts performed to: Ensure the accountability of money held? Verify the correctness of daily transactions? Identify cash handling problems?

(c) Are cash receipts at all library locations reported daily to the main library collection point? Are receipts sent to these locations?

(d) Do the forms on which cash receipts are summarized provide for the inclusion of all known sources of of cash receipts?

(e) Are all library cash receipts deposited on a daily basis with the main cashier's office on campus?

If not, are they placed in a library safe or other suitable secure storage area until transferred?

(f) Is there controlled access to areas where receipts are stored awaiting transfer? Are keys to locks under control and distributed on a limited basis? Are locks and combinations changed when employees terminate?

All Receipts: Internal Check

1. Do the duties of the persons who prepare the detailed listing of cash receipts received by mail exclude the functions of:

   (a) Preparing the deposit?

   (b) Posting remittances to detailed accounts receivable?

   (c) Posting credits for cash received to general ledger accounts?

   (d) Entering amounts in the cash receipts book?

2. Are cash received items withheld from deposit:

   (a) Reviewed by a responsible person independent of cash receipts, accounts receivable and credit and collection functions?

   (b) Released by a responsible independent person for return to payor or for deposit?

3. Are cash received items, withheld from deposit but not listed or otherwise under accounting control, held by a responsible person independent of:

(a) Person preparing the deposit?

(b) Those responsible for posting detailed accounts receivable or other control accounts?

(c) Those responsible for credit and collection functions?

4. Are totals of cash receipts compared with cash books and deposit slip totals and with credits to accounts receivable control and other control accounts by persons independent of:

(a) Cash receipts functions?

(b) Accounts receivable functions?

(c) Posting credits for cash received to the general ledger?

(d) Cash counts and reconciliation?

H. Declaration of Surplus Books, Journals, etc. Internal Accounting Control

1. Do library procedures exist for the declaration of surplus books, journals, etc.?

2. If yes, are these procedures different from university procedures?

3. Are there separate procedures for different types of materials (for example, duplicate books and journals, unwanted gifts, withdrawn materials, etc.)?

4. Does a responsible official declare materials surplus as well as approve the disposal of surplus materials?

5. Can some or all of surplus library materials be sold? Must bids be taken? Is this handled by library staff? By university officials? How are values determined?

6. Are there booksales held for surplus books? Under whose supervision are these sales held?

7. If surplus library materials can not be sold, can they be exchanged or donated outright? Is this handled by library staff? By university officials?

8. Are the materials properly marked surplus, or no longer part of the library's collection?

Declaration of Surplus Books, Journals, etc.: Internal Check

1. Is the listing of surplus library materials prepared by persons independent of:

   (a) Ordering functions?

   (b) Receiving functions?

   (c) Cash receipt and disbursement functions?

2. Are counts verified by persons independent of those in charge of listing surplus materials?

3. Is there accounting control maintained for the disposition of surplus library materials?

4. If surplus material is sold, are there proper accounts established?

5. Are possible conflicts of interest in connection with those staff responsible for disposing of library surplus material periodically reviewed? (Examples: 1) Choice of commercial vendor, institution, agency, or individual to which or whom surplus library materials will be sold or donated. 2) Values placed on surplus materials. 3) Procedures for depositing of revenues received from such sales.)

VI. CIRCULATION AND RESERVE SERVICES (If any Section is not applicable to your library's situation, please skip to the next appropriate Section.)

A. Cash Receipts (General)

Do receipts of currency, checks, and money orders for fines and other fees include:

1. Receipts received by mail?

2. Receipts received over the counter by library staff?

B. Cash Receipts Received by Mail
Internal Accounting Control

1. Is a detailed listing made showing names and amounts?

2. Is the total of the listing in the cash book compared with:

   (a) Deposit slip total?

   (b) Credits for accounts receivable control or other control accounts?

3. When a list other than that in the cash book is prepared, is the total of such list compared with the cash book total?

C. Cash Receipts Received Over the Counter by Staff
Internal Accounting Control

1. Cash count and reconciliation.

   (a) Is cash normally counted at the beginning of each day's activity verifying that the amount received is correct? Is the counting done by a responsible person(s)?

   (b) Is cash also counted at the end of each day's activity reconciling it with daily receipts?

   (c) Are cash counts always performed in the presence of of the individual(s) responsible for the cash?

2. If cash registers are used:

   (a) Do they prepare tapes?

   (b) Are the tapes retained?

   (c) Are the totals of the tapes reconciled with the cash collected at least once a day?

   (d) If the answer to the first question is "no", is the cash register cumulative total reconciled periodically with recorded receipts?

3. If receipts are used:

   (a) Are retained copies pre-numbered?

   (b) Are numbers accounted for?

   (c) Are totals of the slips or receipts reconciled periodically with the cash collected?

4. Are totals shown by the cash registers (tapes or readings) or totals of receipts:

   (a) Summarized for recording each day?

   (b) Compared with:

      (1) Cash book totals?

      (2) Deposit slip totals?

5. Is the receipt of cash provable by other records?

6. Are there procedures established for the acceptance or non-acceptance of personal checks?

D. All Receipts
Internal Accounting Control

1. Are each day's receipts recorded promptly when received?

2. Are cash receipts at all library locations transferred daily to the main library collection point? Are daily summaries and/or receipts (i.e., evidence to indicate transfer of monies) sent to these locations?

3. Do the forms on which cash receipts are summarized provide for the inclusion of all known sources of cash receipts?

4. Are all library cash receipts deposited on a daily basis with the main cashier's office on campus?

   If not, are they placed in a library safe or other suitable secure storage area until transferred?

5. Is there controlled access to areas where receipts are stored awaiting transfer? Are keys or locks under control and distributed on a limited basis? Are locks and combinations changed when employees terminate?

All Receipts: Internal Check

1. Do the duties of the persons who compile the detailed listing of cash received by mail exclude the functions of:

   (a) Preparing the deposit?

   (b) Posting remittances to detailed accounts receivable?

   (c) Posting credits for cash received to general ledger accounts?

   (d) Entering amounts in the cash receipts book?

2. Are cash received items withheld from deposit:

   (a) Reviewed by a responsible person independent of cash receipts, accounts receivable and credit and collection functions?

   (b) Released by a responsible independent person for return to payor or for deposit?

3. Are cash received items, withheld from deposit but not listed or otherwise under accounting control, held by a responsible person independent of:

   (a) Person preparing the deposit?

   (b) Those responsible for posting detailed accounts receivable or other control accounts?

   (c) Those responsible for credit and collection function?

4. Are the duties of the person(s) who receive cash independent of:

   (a) Other cash functions?

   (b) Preparation of charges?

5. Are totals of cash receipts compared with cash books and deposit slip totals and with credits to accounts receivable control and other control accounts by persons independent of:

   (a) Cash receipts functions?

   (b) Accounts receivable functions?

   (c) Posting credits for cash received to the general ledger?

   (d) Cash counts and reconciliation?

E. Security Deposits
Internal Accounting Control

1. Are security deposits normally required for the issuance of keys for studies, lockers, carrels, typing rooms, classrooms, etc.? Are security deposit amounts sufficient to ensure the return of the keys?

2. Are security deposits normally required for the issuance of lockers or other equipment? Are security deposit amounts sufficient to cover the replacement cost?

3. Are records made of the security deposits received?

4. Are security deposits refunded only after proper identification has been established?

F. Physical Inventory of Library Collections
Internal Accounting Control

1. Are there annual physical inventories taken of all the library's collections? Other time span?

2. Are branch libraries' inventory schedules the same as that of the main library?

3. Are complete inventories taken? Or are there random samples taken to determine need for more complete inventories?

4. If a random sample is taken, what procedures are used? For example:

   (a) Are random samples of the library's shelf list taken against the book shelves to ascertain what books listed in the shelf list are not on the shelves?

   (b) Are circulation files examined to determine which volumes and/or copies listed as missing from the shelves are checked out or otherwise accounted for elsewhere in the library system?

   (c) Are there pre-determined waiting periods which allow time for books which were off the shelves during the first shelf checks to be reshelved by the Circulation Department, part of the sampling technique?

   (d) Are second shelf checks undertaken, after which all remaining inventory control cards representing copies and volumes not yet located, are considered to be missing?

   (e) Are there final circulation file examinations, after which holdings unaccounted for are assumed to be missing? Or is there yet a final step required to eliminate snags and other problems by special staff before a volume is declared lost?

   (f) Are the missing books replaced?

   (g) Are missing books covered in the library's insurance policy?

   (h) Is the value of the library's collection updated to cover the cost of such missing materials, including processing costs? If yes, is a professional appraiser utilized to determine their value? Or does responsible

library staff determine the value? Is this done on an annual basis? Other period of time?

(i) Are there security measures taken to impede the loss of library materials? Are these mechanical means or through the use of human resources?

VII. AUDIO/VISUAL - PHOTOCOPYING SERVICES (If any Section is not applicable to your library's situation, please skip to the next appropriate Section.)

A. Cash Receipts (General)

Do receipts of currency, checks, and money orders for photocopying services (internal library and inter-library loan), rental of equipment, and audio/visual services include: Cash receipts received by mail? Cash receipts received over the counter by library staff?

1. Cash Receipts Received by Mail
Internal Accounting Control

(a) Is a detailed listing made showing names and amounts?

(b) Is the total of the listing in the cash book compared with:

(1) Deposit slip total?

(2) Credits for accounts receivable control or other control accounts?

(c) When a list other than that in the cash book is prepared, is the total of such list compared with the cash book total?

2. Cash Receipts Received Over the Counter by Staff
Internal Accounting Control

(a) Cash count and reconciliation.

(1) Is cash normally counted at the beginning of each day's activity verifying that the amount received is correct? Is the counting done by a responsible person(s)?

(2) Is cash also counted at the end of each day's activity reconciling it with daily receipts?

(3) Are cash counts always performed in the presence of the individual(s) responsible for the cash?

(b) If cash registers are used:

(1) Do they prepare tapes?

(2) Are the tapes retained?

(3) Are the totals of the tapes reconciled with the cash collected at least once a day?

(4) If the answer to the first question is "no", is the cash register cumulative total reconciled periodically with recorded receipts?

(c) If receipts are used:

(1) Are retained copies pre-numbered?

(2) Are numbers accounted for?

(3) Are totals of the slips or receipts reconciled periodically with the cash collected?

(d) Are totals shown by the cash registers (tapes or readings) or totals of receipts:

(1) Summarized for recording each day?

(2) Compared with:

Cash book totals?

Deposit slip totals?

(e) Is the receipt of cash provable by other records?

(f) Are there established procedures for the acceptance or non-acceptance of checks?

3. <u>All Receipts</u>
<u>Internal Accounting Control</u>

(a) Are each day's receipts recorded promptly when received?

(b) Are cash receipts at all library locations transferred daily to the main library collection point? Are daily summaries and/or receipts (i.e., evidence to indicate transfer of monies) sent to these locations?

(c) Do the forms on which cash receipts are summarized provide for the inclusion of all known sources of cash receipts?

(d) Are all library cash receipts deposited on a daily basis with the main cashier's office on campus?

If not, are they placed in a library safe or other suitable secure storage area until transferred?

(e) Is there controlled access to areas where receipts are stored awaiting transfer? Are keys or locks under control and distributed on a limited basis? Are locks and combinations changed when employees terminate?

All Receipts: Internal Check

1. Do the duties of the persons who compile the detailed listing of cash received by mail exclude the functions of:

   (a) Preparing the deposit?

   (b) Posting remittances to detailed accounts receivable?

   (c) Posting credits for cash received to general ledger accounts?

   (d) Entering amounts in the cash receipts book?

2. Are cash received items withheld from deposit:

   (a) Reviewed by a responsible person independent of cash receipts, accounts receivable and credit and collection functions?

   (b) Released by a responsible independent person for return to payor or for deposit?

3. Are cash received items, withheld from deposit but not listed or otherwise under accounting control, held by a responsible person independent of:

   (a) Person preparing the deposit?

   (b) Those responsible for posting detailed accounts receivable or other control accounts?

   (c) Those responsible for credit and collection function?

4. Are the duties of the person(s) who receive cash independent of:

   (a) Other cash functions?

   (b) Preparation of charges?

5. Are totals of cash receipts compared with cash books and deposit slip totals and with credits to accounts receivable control and other control accounts by persons independent of:

   (a) Cash receipts functions?

   (b) Accounts receivable functions?

   (c) Posting credits for cash received to the general ledger?

   (d) Cash counts and reconciliations?

B. Intra-University Departmental Charges for Audio-Visual/ Photocopying Services
Internal Accounting Control

1. Are procedures followed in all library departments providing audio-visual/photocopying services to ensure the reporting of all services involving charges?

2. Does the library's accounting department or administrative office receive daily or periodic charge memos or reports of services rendered or furnished? Or is the billing cycle __ 30 days, __ 60 days, __ 90 days, __ by semester?

3. Are such reports pre-numbered?

   (a) If so, are the numbers accounted for?

   (b) Are voided reports kept and filed?

4. Are charges for services checked for accuracy of:

   (a) Period covered?

   (b) Type of services?

   (c) Rates used?

   (d) Extensions?

   (e) Discounts?

   (f) Footings?

   (g) Budget accounts?

5. Are the following classes of transactions cleared and recorded:

   (a) Sales to staff?

   (b) Sales of library materials and equipment (if applicable)?

6. Are letters of authorization supplied to library departments by faculty and other university departments who have personnel who will be authorized to request and charge photocopy work and other audio-visual services? Are such personnel required to produce their I.D. cards when requesting these services? Are dollar limits required on such letters of authorization?

Intra-University Departmental Charges for Audio-Visual/ Photocopying Services: Internal Check

1. Are the charge memo reports of services prepared by persons independent of:

   (a) Billing functions?

   (b) Accounts receivable functions?

   (c) Cash receipt functions?

   (d) Credit section?

2. Is the checking of charges for services made by persons independent of:

   (a) Billing functions?

   (b) Accounts receivable functions?

   (c) Cash receipt functions?

   (d) Credit section?

C. Audio/Visual Equipment and Supplies-Inventory Control Internal Accounting Control

1. Are detailed records, including price histories, maintained of supply and equipment inventories?

2. Is a periodic physical inventory of equipment and related supplies taken? Is condition of equipment also considered?

3. Is all equipment marked with a department code immediately upon receipt by this department?

4. Are all inventoried items safeguarded against theft and breakage?

5. Are the storerooms or storage areas properly safeguarded or controlled so as to prevent access to materials by unauthorized personnel?

6. If some of the library's equipment can be borrowed by library staff or library patrons, are there established check-out procedures? Do such procedures require security deposits? Are such security deposits sufficient to cover the replacement cost?

   Are such borrowings authorized by responsible persons?

Audio/Visual Equipment and Supplies-Inventory Control: Internal Check

1. Are inventories tested periodically by library or university officials? Is condition of equipment also considered?

   Are such inventory counts verified by persons independent of those in charge of the inventory records?

2. Is equipment adequately covered by insurance?

3. Are there proper budgeted amounts established for equipment and supplies?

   Are purchases from university stores, departments, and outside vendors made on requisitions only?

VIII. INTERLIBRARY LOAN SERVICES (If any Section is not applicable to your library's situation, please skip to the next appropriate Section.)

Internal Accounting Control

A. Charges for Services To Other Institutions

1. Is there a standard interlibrary lending fee charged to other institutions? What comprises this fee? If yes, who is responsible for setting this fee? How is the fee derived?

2. If there is no standard interlibrary lending fee, are there minimum charges to other institutions for photocopying and mailing costs? If yes, who is responsible for setting this fee? How is this fee derived?

B. Invoicing for Services to Other Institutions

1. Does the interlibrary loan section bill other institutions for services rendered? If not, what library unit is responsible?

2. Are standard university invoice forms used? Or do special library loan invoices exist? If special forms are used, do they meet university regulations and standards?

3. Are pre-numbered invoices used on all billings?

4. Are there procedures for follow-up if invoices are not paid within _____ days? Do such procedures include sending xeroxed duplicate invoices marked "second request"?

5. Do any institutions pre-pay for the materials they usually order?

6. How are credits handled for any overpayments that an institution might make?

C. Cash Receipts Received by Mail
Internal Accounting Control

1. Is a detailed listing made showing names and amounts?

2. Is the total of the listing in the cash book compared with:

   (a) Deposit slip total?

   (b) Credits for accounts receivable control or other control accounts?

3. When a list other than that in the cash book is prepared, is the total of such list compared with the cash book total?

Cash Receipts Received by Mail: Internal Check

Do the duties of the persons who prepare the detailed listing of receipts by mail exclude the functions of:

1. Preparing the deposit?

2. Entering amounts in the cash receipts book?

D. Processing Interlibrary Loan Invoices from Other Institutions

1. Is the information on the invoice compared with the original interlibrary borrower request? What was received?

2. Are all copies of invoices received, except the original, stamped to indicate clearly that they are duplicates, thereby decreasing the likelihood of duplicate payment of an invoice?

3. Are invoices checked mathematically for:

   (a) Extensions?

   (b) Footings?

   (c) Foreign currency exchange rates (if applicable)?

4. Does a responsible person indicate on the invoice or other documents his/her:

   (a) Approval of the accounting (budgetary) distribution of invoices?

   (b) Approval of the invoices for payment?

5. Are invoices usually processed and paid within __ 30 days, __ 60 days, __ 90 days, __ over 90 days?

6. Are payments made from duplicate invoices or statements?

7. Are unprocessed invoices reviewed periodically?

8. Are processed invoices listed in detail showing names and amounts?

9. Are processed invoices under numerical control? Other type of control?

10. Is the total of unpaid invoices in an invoice register or file reconciled periodically?

E. Cash Disbursements

1. Are there any disbursements made by check by the library or university's business office, or for interlibrary services from other institutions or agencies? Is documentation required?

2. Are any disbursements made in currency?

   (a) Is there a cost limit on such disbursements?

   (b) Is documentation required?

3. Does a responsible library staff member authorize such disbursements?

F. Individual and/or Inter-University Departmental Charges for Interlibrary Borrower Services

1. If the library charges individuals and/or other university departments for interlibrary borrowing services, how are these fees determined? Are these fees different than charged to other institutions? If yes, why?

2. Does the interlibrary loan section bill individuals or intra-university departments directly? Or does the library's administrative office or photocopying service do the billing?

3. Are standard university invoices used? Or do separate interlibrary loan forms exist? Are such invoices pre-numbered? Are there procedures for follow-up if invoices are not paid within ____ days? Do these procedures follow standard university rules and regulations?

4. Are letters of authorization supplied to the interlibrary loan section by faculty and other university departments who have personnel who will be authorized to request and charge interlibrary photocopy work and other interlibrary loan services? Are such personnel required to produce their I.D. cards when requesting these services? Are dollar limits required on such letters of authorization?

G. Cash Receipts Received

1. Cash Receipts Received by Mail
Internal Accounting Control

(a) Is a detailed listing made showing names and amounts?

(b) Is the total of the listing in the cash book compared with deposit slip total?

(c) When a list other than that in the cash book is prepared, is the total of such list compared with the cash book total?

2. Cash Receipts Received in Person
Internal Accounting Control

(a) Is a detailed listing made showing names and amounts?

(b) Is the total of the listing in the cash book compared with deposit slip total?

(c) When a list other than that in the cash book is prepared, is the total of such list compared with the cash book total?

(d) Are there procedures established for the acceptance or non-acceptance of personal checks?

3. All Receipts
Internal Accounting Control

(a) Are each day's receipts deposited intact on a daily basis with the library's accounting unit or administrative office?

(b) If such receipts are not deposited on a daily basis, are they placed in a suitable, controlled, and secure storage area?

All Receipts: Internal Check

Do the duties of the persons who prepare the detailed listing of receipts by mail or in person exclude the functions of:

1. Preparing the deposit?

2. Entering amounts in the cash receipts book?

CHAPTER FIVE

ORIGINAL RECORD EXAMINATION AND TESTING

As outlined in Chapters 3 and 4, an auditor's approach to the review of the accounting practices and internal controls of a university library should be systematic. Basically the steps in the review and evaluation of a library's internal control and accounting procedures can be summarized as follows:

(1) Determine by review of accounting manuals and inquiry what procedures and controls have been established.

(2) Test by means of a "walk-through" of a number of documents and by inquiry whether established procedures are being followed.

(3) Evaluate the effectiveness of the procedures and controls to determine the reliance which may be placed on them.

(4) Confirm the evaluation of the procedures and controls by means of a limited test of transactions.

(5) Select auditing procedures on the basis of either strong or weak controls.

(6) Make recommendations to library management for improvements in the system.

(7) Follow up after recommendations have been made to determine if they have been accepted and put into practice.

This chapter is devoted then to auditing programs for original record examination and testing which should be developed after the system of internal control is evaluated and an internal control questionnaire is prepared. Such a program will be developed on the assumption that an examination of a portion of the transactions and their recording will reveal a given percentage of error, an examination of all transactions and their recording should reveal approximately the same percentage of error. Therefore, if a library's internal control is satisfactory, the examination of transactions and their recording is limited to a portion of the total. Testing is a recognized auditing standard. If neither an auditor, library business manager, or a library auditing committee is satisfied with the results of tests for any given array of data, the amount of the testing must be extended until they are satisfied or until they are convinced that errors exist which are of sufficient magnitude to force them to reevaluate the system of internal control.

There are three main types of samples which auditors use in audit program testing: (1) judgment sample, (2) block sample, and (3) random sample. A judgment sample is one wherein the items (of a population) to be examined are selected on the basis of the auditor's judgment. A

block sample is one selected on the basis of consecutive time, with a total verification of all times in the block. For example, one month's accounts payable transactions may be examined; one week's payroll calculations may be verified. The block may be selected on the basis of judgment, or it may be selected at random. The random sample is the most widely used technique by auditors. The items included in the sample must be drawn completely at random from the entire population so that each item in the population has an equal or known chance of being selected. Unless the sampling is free from bias, that is, each item has an equal chance of being selected, the results will not be reliable. Many random number tables have been published. If computer time is available, the statistical samples can be selected more quickly and perhaps more accurately by computer.

The remainder of this chapter will be devoted to sample audit programs for original record examination and sampling.

AUDIT PROGRAM FOR PURCHASE ORDERS OF LIBRARY MATERIALS

1. Prove original accounting entry record footings and cross-footings; trace the totals to the general accounting ledger for two non-consecutive months.

2. Examine vendors' invoices and compare with entries in the purchase order record (or voucher register) for:

   (a) Two non-consecutive months, as in item 1. above; or,

   (b) The last month of the period plus a random sample, the total of which will equal approximately 17 percent of the annual total; or,

   (c) A random sample of approximately 17 percent.

3. Verify extensions in accordance with item 2.(a), (b), or (c) above.

4. Verify that all examined invoices and related vouchers bear evidence of approval for payment and are so stamped to avoid duplicate payments.

5. Examine receiving records for the last week of the period and trace the receipt of library materials to the purchase order records.

6. Trace sample purchase orders to internal library records to verify that the purchased items have actually been added to the collection.

7. Watch for incorrect account distributions.

8. Test validity of suppliers' existence by reference to independent sources.

9. Investigate state of irregular, old or large prepaid items (e.g., old book orders, one or more years outstanding).

10. Investigate credit memo balances for each supplier, match with appropriate documents, confirm with suppliers if necessary.

11. Confirm balance of accounts payable to major suppliers at the end of the fiscal year date. Request positive confirmation for large balances and negative confirmation for smaller balances.

12. Determine the propriety of the cutoff at the last day of the period.

AUDIT PROGRAM FOR CASH RECEIPTS RECORDS

1. Prove the accuracy of footings and cross-footings in the records of original entry for two non-consecutive months of the year; vary at least one of the months each year.

2. In accordance with item 1. above, trace the postings to the general ledger accounts and the subsidiary accounts.

3. Trace cash receipts from original data (such as register tapes, invoices, special library forms, etc.) to the cash receipts original accounting record:

   (a) For two non-consecutive months; or,

   (b) For the last month of the period plus a random sample, whereby the sum of the two equal approximately a 17 percent test; or,

   (c) By selecting a random sample of original data which is approximately equal to a 17 percent test.

4. Compare total daily cash receipts with library deposit records to the university's cashiers' or accounting office in accordance with item 3. above.

5. If necessary, prove the total annual recorded receipts with the total of the library's deposit records.

6. Determine that the cash receipts cutoff is proper.

AUDIT PROGRAM FOR PETTY CASH OR OTHER CASH FUND DISBURSEMENTS

1. Select a sample of the fund reimbursement vouchers and the accompanying individual expenditure vouchers.

2. Prove extension and footing accuracy on the reimbursement vouchers in the sample.

3. Prove the total of the individual expenditure vouchers with the total of each reimbursement voucher selected.

4. Trace reimbursement voucher data to the cash disbursements record.

5. Examine each selected individual expenditure voucher for date, purpose, approval, amount, and account distribution.

6. Examine the propriety of ledger account distributions as indicated by the selected reimbursement vouchers.

AUDIT PROGRAM FOR PAYROLL INSPECTION

1. Review a reasonable sample of current time sheets on file and evaluate them from the standpoint of whether:

   (a) They are of such a form and prepared in such a way as to make erasures or alterations difficult (i.e., prepared in ink or by similar means); and,

   (b) Whether all erasures, changes, and "out-of-rate" items are initialed by the approver of the time sheet; and,

   (c) Whether there is no possibility that additions can be made after the approval.

2. Also ascertain whether the library payroll or personnel section is checking that the approval signatures were properly authorized.

3. Select a random sample of time sheets and confirm with the appropriate supervisor any changes or erasures thereon not supported by specific authorization.

AUDIT PROGRAM FOR VACATIONS AND ABSENCES

1. Review university and library policies regarding vacations and absences and determine that all main library departments and branch libraries are complying with them.

2. Determine what controls are maintained by the various library departments and branch libraries for vacations and absences.

3. Review and examine the records maintained to determine how effective and accurate they are in terms of control.

   (a) Will the records point up excess vacation and absences?

   (b) Are the records checked periodically to avoid the above situation?

   (c) Is there a daily sign-in sheet or time card used to control vacations and absences?

   (d) Are records uniform in all departments?

   (e) Are excessive cases of sickness reviewed periodically and discussed with the employees concerned?

CHAPTER SIX

AUDITING AND COMPUTERIZED SYSTEMS*

As is well known, university libraries have developed computerized systems for several library operations (e.g., acquisitions, cataloging, and circulation systems). This chapter will deal with the techniques used in the auditing of electronic data processing (EDP) systems.

Auditing of records maintained on a computer system rests on the same concepts as auditing of non-computerized records. However, computer processing presents unique control problems and the auditor utilizes special audit techniques. The procedural objectives to be met are: (1) to gather information on how the computer data processing system is purported to operate; (2) to accumulate evidence which demonstrates how the data processing system actually does operate (tests of compliance); and, (3) to accumulate evidence as to whether or not the computer-based records are reasonably correct.

Information on the way the system is purported to operate is gathered from organizational charts, documentation, inquiries of responsible data processing personnel, and inquiries of accounting and other personnel. Methods for obtaining and recording the information include questionnaires, checklists, flow charts, and narrative memoranda.

The information obtained can then be verified by supplemental inquiries and discussion with data processing personnel, by personal observation of activities, and by examination of evidence of compliance. In addition, both manual and computer-based tests can be used to acquire evidence on how the system actually does operate. From the system description and evidence of compliance, one can evaluate the reliance to be placed on the processing system in producing reliable data.

Evidence regarding the quality and correctness of computer-based records can be obtained by testing extensions and footings, selecting and printing confirmation requests, examining records for quality, performing analyses, comparing duplicate data maintained on separate

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* This chapter is based upon information contained in James A. Cashin's Handbook for Auditors (New York: McGraw-Hill, 1971, Chapters 9 and 16); Arthur W. Holmes and Wayne S. Overmyer's Basic Auditing Principles (4th edition, Homewood, Illinois: Richard D. Irwin, Inc., 1972, Chapter 4); and, Gordan B. Davis' Auditing & EDP (New York: American Institute of Certified Public Accountants, 1968, Chapters 8, 10, 11, and Appendix E. Appendix E has the title "Questionnaire for Evaluation of Internal Control in Electronic Data Processing").

files for correctness and consistency, and comparing auditing data with library records. Many of these can be performed manually, but the use of the computer should be considered for those applications involving large volumes and for those where manual procedures are difficult or impossible to use.

In the conduct of the audit of computer-based records, the computer records may exist in a larger control framework. For example, the payroll application may have both computer and non-computer controls, and the total application has both computer and non-computer controls, and the total application should be evaluated with the computer portion being evaluated in the context of the whole application.

In designing an audit program, it has to be kept in mind that the five component parts of electronic data processing (EDP) equipment are input, storage, arithmetic processing, control, and output. In addition, the typical controls which must be reviewed and evaluated in an EDP system are the following: (1) organization; (2) input, storage, and output of data; (3) program development and utilization; (4) processing procedures; and, (5) custodial procedures.

Organization:

To be effective from a control viewpoint, the relationship of the EDP function to the overall library organization must, as in a manual system, continue to provide for an adequate separation of duties which will result in a system of checks and balances throughout the organization and in the data flow. For those libraries that have their own separate computer room facilities, library management should develop procedures which limit admittance to the computer room to only those employees directly connected with the data processing operations. The library should also limit admittance to the computer room to equipment operators and access to data records, files, and programs to control unit personnel.

Input, Storage, and Output of Data:

In reviewing the procedures for input, storage, and output of data, it should be determined that there are satisfactory controls in the following areas: (1) in originating departments supplying the input data to ensure its authenticity, accuracy, and completeness; (2) in the transmission of data from the originating departments to ensure that all data transmitted is received intact by the processing unit; (3) in the conversion of source data into machine-readable form to ensure that all data received is processed; (4) in the use and handling of operating programs to ensure that they are processing the data and producing output in accordance with the system as designed; and, (5) in external checks and balances to ensure the reliability of the data processing output.

Program Development and Utilization:

Controls over the programming process should include: (1) complete documentation of all operating programs in use; (2) procedures in effect for the approval of all modifications to programs; and, (3) procedures in effect for the thorough testing of all program modifications prior to their actual use.

Processing Procedures:

Typical of the controls over the operations of the computer itself are the following: (1) written instructions-operating manual or run-book to cover each processing job; (2) controls established over all data received by the operating group; (3) procedures in effect for the recording and disposition of errors occuring as data is processed; (4) procedures in effect for the issuance of only those programs and data record files required for a specific processing job; (5) procedures for the retention and review of all console printouts or manual records of halts; and, (6) procedures for control and review of all computer running time.

Custodial Procedures:

Typical controls relate to the methods used by the data processing group to limit access to data records, files and programs. In addition, management needs to be concerned with the library's ability to reproduce the data files, records, and programs in the event they are destroyed.

Tests and Compliance:

In addition to the information obtained in supplemental inquiries and discussion with data processing personnel and by personal observation of their activities during the course of an auditing examination, the audit will also include compliance testing to determine performance of specific control procedures and to verify that the controls contained in computer programs are operative during the period of examination. A non-computer testing of the systems usually follows these general steps: (1) examination of evidence for controls (error listings, batch control records, authorizations, etc.); (2) use of printouts to trace items in output to source documents, source documents to reports, report totals to controls, etc.; and, (3) checking of transaction samples for correct processing. This procedure tests a sample of processed items rather than the program itself. The program's processing and control steps are inferred from evidence of its handling of selected transactions (both correct and erroneous). The evaluation of such records are tested to: (1) check correctness of summary accounts (foot, cross-foot, etc.); and, (2) check samples of detail items by confirmation, reasonableness, tests, etc. The data processing systems which may be audited without the use of the computer are usually batch-processed or batch-controlled systems having detailed audit trails. A computer testing of the systems uses the computer to test the program and its built-in controls or to test the results of processing with the program. The two methods may be used separately or in combination, as appropriate.

APPENDIX 1

WASHINGTON UNIVERSITY LIBRARIES

PROPOSAL

TO THE

COUNCIL ON LIBRARY RESOURCES

FOR

A GRANT TO DEVELOP A GENERALIZED PROCEDURE

FOR THE

INTERNAL FINANCIAL AUDITING

OF

UNIVERSITY LIBRARIES

Revised January 19, 1976

I. INTRODUCTION: STATEMENT OF THE PROBLEM

The magnitude of academic library expenditures would seem to mandate well-conceived fiscal controls and procedures. Moreover, recent limitations in library budget would prescribe methods and procedures to reduce "slippage" and inefficiencies to a minimum.

Internal auditing* is an instrument through which the soundness and practicability of procedures and controls can be identified and tested and from which remedial procedural steps can be readily prescribed and the necessary safeguards placed into effect.

In all probability present audits of academic libraries do not provide sufficient assurance that all critical fiscal control points are covered with adequacy in the audit examination. Thus, the full-range of critical fiscal areas in the academic library needs to be stated with accuracy, completeness, and clarity. This sort of information for academic administrators and librarians would serve to illuminate and establish the points or areas in an academic library which merit examination periodically. In other words, there is need to know exactly where to look to make an evaluation within the total system.

There appears to be no evidence of the existence of a body of guidelines or criteria for the systematic (for the entire library qua system) and periodic auditing of academic libraries. Audits, when conducted, are sporadic (conducted in random years). This tends to reduce the effectiveness of remedial actions indicated by the earlier audit.

Audits in academic libraries probably -- we do not know at present -- have not reflected common criteria. There would seem to be value in developing a set of criteria for conducting an audit (that is, a standard measurement). This would provide academic and library administrators with information on what to expect (this relates to and reinforces the preceding paragraphy), or at least identify the areas involving fiscal attributes in the library system which are to be examined and why they deserve examination and query.

The proposal in brief, would intend to examine the entire range of library operations to insure representation of all critical fiscal areas; in other words, to examine the library as a fiscal system.

From this inspection, there would be developed internal audit criteria for academic libraries in general, which, by periodic use would provide for the measurement and evaluation of the effectiveness of the library's fiscal operations.

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*It is internal auditing, oriented toward yielding results primarily useful to management, rather than to external users, which is involved in this proposal.

II. How it Would Be Done

There would be three phases:

PHASE A

(1) Survey auditing literature to identify areas involving critical fiscal control points applicable to the academic library context.

(2) Establish and define critical fiscal control points in WU Library, describing them by means of interviewing key staff involved.

(3) Conduct an actual audit of the WU Library, utilizing the information assembled as a tentative model. Evaluate the audit.

(4) Evaluate the critical control points on the basis of the preceding steps re-phrasing them in the form of provisional "guidelines" or criteria with background narrative information supporting each guideline.

(5) Communicate results, findings, during this phase with selected University libraries to avoid developing a product which reflects a single university factor. There would also be liaison with Office of Management Studies (OMS) of the Association of Research Libraries (ARL) at this stage.

PHASE B

(1) Develop the provisional criteria of Phase I, for relevance to university libraries in general.

(2) Test the criteria at other university libraries; (a) private universities; (b) state universities, developing a commentary or explanatory text, as well as general procedures. Review criteria with an advisory committee of university auditors (See Part V) for critique purposes, refine criteria and help assure their applicability to other university libraries.

PHASE C

(1) Formalize the auditing criteria, based on previous actions.

(2) Prepare the criteria, organizing them by library function, with supporting commentary and direction for interviewing technique for eliciting the information. Prepare final brochure or "manual" containing the auditing criteria.

III. WHO WILL DO IT

The University Librarian will be the Project Director. The University's Internal Auditor, under the general direction of the University Librarian, will examine the University Library fiscal framework and, by examination of policies and procedures, will set forth tentative targets for recurring examination. The University Auditor will have primary responsibility for the development of the auditing criteria and policies.

One or more Master of Business Administration students will assist the University Auditor. As a resource for advice and counsel, the facilities of the University School of Business will be available.

IV. AREAS TO BE COVERED IN THE WU AUDIT

Specifically, the audit would include, but will not be limited to, the following functional areas:

A. Book Collection - checks to determine "inventory" condition.

B. Acquisitions.

1. ordering;
2. invoicing system;
3. recording of receiving information in response to purchase orders;
4. charging of encumbrances and expenditures, allotment controls and statements to departmental faculty;
5. prevention of duplicate payments;
6. handling of vendor credits;
7. petty cash control;
8. checks to assure appropriateness, accuracy and timeliness of expenditures to vendors.

C. Processing.

1. Binding routines; checking returns from bindery.

D. Services.

1. photocopy income;
2. key deposits.

E. Circulation.

1. recording procedures;
2. circulation controls;
3. fine collections;
4. lost book charges.

F. Computer Services.

1. charges, fees, and their recording in relation to computerized networks (e.g., OCLC);
2. charges, fees, their collection for computerized bibliographic searcher (e.g., Systems Development Corporation, Lockheed);
3. assessments, charges in relation to other computer services (e.g., Acquisitions, Cataloging).

G. Interlibrary loan services.

H. Equipment and supplies.

I. Personnel budgeting. Control of disbursements.

J. Bid procedure.

V. DEVELOPMENT OF CRITERIA IN CONJUNCTION WITH OTHER UNIVERSITY LIBRARIES

Coordinated development of auditing criteria from the outset of the program is envisaged to enhance the general applicability of the resulting auditing criteria and, correspondingly, avoid a product fitting only a single institution or with limited "reach". Such coordination would intensify as the program moves forward.

Coordination would be worked out, at the earlier stages, with private universities of size comparable to WU (e.g., Rochester, Johns Hopkins, Duke), but without involving them in extended efforts. Other collaboration with state university systems would occur later. An advisory group of auditors representing several of the universities as a review function will be established in order to refine the auditing criteria and to help assure their general applicability or standards.

This advisory panel would include auditors from the public university sector as well.

VI. LIAISON WITH THE ASSOCIATION OF RESEARCH LIBRARIES, OFFICE OF MANAGEMENT STUDIES (OMS)

Since the preparation of a set of auditing guidelines will complement other management control systems being developed by the Office of Management Studies for application to its Management and Research Program, there will be liaison with the Office of Management Studies from the outset and the Director will be asked to serve on an advisory committee.

VII. HOW LONG IT WILL TAKE

It is anticipated that the survey, in all of its phases from the beginning to the development of the specifications, would take six months beginning March 1, 1976 and ending August 31, 1976.

APPENDIX 2

AUDITING TERMINOLOGY

Accountants commonly employ these distinctive terms to designate a function related to auditing. The following terminology is reproduced from: Arthur W. Holmes and Wayne S. Overmyer's Basic Auditing Principles, 4th Edition. Homewood, Illinois: Richard D. Irwin, Inc., 1972. pp.56-57.

Analyze: To separate into elements or parts.

Check: To control. In auditing, it should mean a tick-mark placed after an item, after the item has been verified.

Checking: To compare one number in two or more places. The terms "check" and "checking" are used too loosely in auditing; the use of both words should be avoided.

Compare: To note the similarity or dissimilarity of items. To illustrate: the total of a vendor's invoice may be compared with the corresponding entry in the purchase order record.

Confirm: To obtain proof from a source other than the client of his records.

Examine: To investigate, to inspect, or to test accuracy. To illustrate: An invoice may be examined in order to assure the accuracy of prices, extensions, and footings.

Foot: To determine the accuracy of vertical subtotals and totals. "Cross-foot" means to determine the accuracy of horizontal subtotals and totals.

Inspect, Scan, Scrutinize: To review and investigate, without complete verification. Complete verification would result in an unwarranted amount of work. To illustrate: Petty cash vouchers may be inspected for reasonableness.

Reconcile: To bring into agreement two separate and independent sets of related figures.

Test: To verify the accuracy of a portion of a total of similar date. To illustrate: The accuracy of every 10th accounts payable invoice may be proved; postings to general ledger accounts may be proved for two non-consecutive months of the year. If the results of the tests are satisfactory, the assumption is that other similar data will contain the same percentage of reliability.

Trace: To determine that an item is properly disposed of in accordance with original authority.

Verify: To prove accuracy. To illustrate: The accuracy of footings and posting from journals may be verified; the ownership of assets may be verified by proof of ownership.

Voucher: Any documentary evidence in support of a transaction. A voucher commonly is thought of as an authorization to disburse money; this is not true.

Vouching: The examination of underlying evidence which is in support of a transaction; or the substantiation of an entry by proving authority, ownership, existence, and accuracy.

APPENDIX 3

LIBRARY TERMINOLOGY

Librarians commonly employ the following distinctive terms to designate library functions:

Acquisitions Department. The administrative department of a library concerned with the ordering and receipt of books. Often other functions such as selecting books, obtaining books by exchange or gift, administration of serials and binding, disposing of unwanted books, and the controlling of petty cash and other deposit accounts are undertaken. Sometimes referred to as the Order Department.

Approval Orders/Blanket Orders. In many university libraries, either one or both are used to acquire newly published books. Under the blanket order system, the ordering library provides guidelines for the selection of library materials to the supplier. The supplier selects all currently published materials falling within the guidelines, for the libraries who automatically purchase, within certain limitations, all books so selected. Approval Orders differ from blanket orders in that the library has a right to return the materials ordered on approval within given time limits. However, in general practice, the distinctions between the two types of orders have become somewhat blurred the last few years.

Audio-Visual Materials. Non-book materials such as phonorecords, tapes, slides, transparencies, films, filmstrips, and microformats which require special equipment to render them usable. In many libraries, a special audio/visual area has been established to house these materials and equipment. Photocopying services are sometimes provided in these areas.

Binding or Bindery Department. The library department that prepares books, periodicals, and other material for binding or rebinding. In most university libraries today, these library materials are sent to be bound by a commercial bindery. However, there are still a few that maintain their own in-house bindery operations.

Catalog. A list of books and other library materials, arranged in some definite order. It records, describes, and indexes (usually completely) the resources of a collection, a library or a group of libraries. Each entry in the catalog bears details of class number or call number to enable the item to be found, as well as sufficient details (such as author, title, date of publication, editorship, illustrations, pagination and edition) to identify the book.

Cataloging Department. The administrative department of the library which deals with the cataloging and classification of books and in some instances serials and non-book materials, together with their processing and preparing of books for the shelves.

Circulation Department. The administrative unit of a library in charge of all the routines connected with lending books to the university community.

Continuations. A part issued in continuance of a serial, series or book. An order to a vendor to supply subsequent parts as issued is called a continuations order.

Departmental Library. A library in a college or university which is apart from the main library and restricted to one subject or group of subjects. For example, Business Library, Biology Library, Science Library, Art Library, Health Sciences Library, Law Library, etc. Also called branch libraries at some universities.

Interlibrary Loan Unit. A library unit responsible for the lending of books between libraries. In some libraries, one unit is responsible for both lending and borrowing of books. Other libraries split the functions and organize them under the supervision of the circulation and reference departments.

Periodical. A publication with a distinctive title, consecutively numbered or dated issues which appear at regular intervals, generally more often than once a year, without prior decision as to when the last issue will appear. In some libraries, a separate periodical room exists which houses all or some of their collection of periodicals.

Public Services. The service operations concerned with facilitating the use of materials - reference assistance, circulation, interlibrary borrowing, photocopying, and maintenance of the book stacks. Also known as the reader's service function. In many libraries, those activities are administered under a grouping called the public services division.

Reserve Book Section. The part of a college or university library where books for required reading are housed. This is material which is usually in great demand because of being placed on reading lists assigned by faculty. In many libraries, this section is part of the circulation department for administrative purposes.

Serials Department. The administrative unit in charge of handling serials, e.g., periodicals, newspapers, annuals, numbered monographic series, and the proceedings, transactions, and memoirs of societies; this may include ordering, checking, and cataloging of serials.

Standing Order. An order to a publisher or subscription agency to supply each succeeding issue of a serial, periodical or annual publication, or subsequent volumes of a work published in a number of volumes. Also called a "till-forbid order".

Subscription Agent. A firm which arranges, sometimes for a service charge, at the order of a library, for the regular delivery of serials from publishers as published. Such specialized vendors can be effective in handling subscriptions, in responding to claims, in offering competitive subscription rates, and most importantly in reducing the amount of paperwork and accounting within the acquisitions or serials departments.

Technical Services. All the activities and processes concerned with obtaining, organizing and processing library material for use - acquisitions, cataloging, classification, binding, serials, and preservation. In many university libraries, these activities are administered under a grouping called the technical services division.